BANK LEUMI LE-ISRAEL B.M.
AND ITS INVESTEE COMPANIES

2021 Annual Report

The Bank received the Banking Supervision Department's approval to publish its annual financial statements on a consolidated basis only, with condensed (non-consolidated) financial statements in Note 35 to the financial statements. The Bank's standalone data are available upon request at the Bank's offices at 34 Yehuda Halevi Street, Tel Aviv or on its website: www.leumi.co.il

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2021 Annual Financial Statements
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A Message from the Chairman of the Board

Congratulations, Leumi Family!

Several days ago, Bank Leumi marked its 120-year anniversary - 120 years of fruitful work and immense success. We continue to maintain a young and fresh spirit, working full throttle to benefit all stakeholders - customers and suppliers, employees and investors, as well as Israeli society as a whole. Originally called the Anglo-Palestine Company, Leumi was founded in 1902, on the initiative of Binyamin Zeev Herzl, in London. During that year, Herzl published his utopic novel Altneuland, in which he describes a tolerant and fair country, with a booming economy, blooming banking and state-of-the-art technology. Since it was founded and up to today, Leumi is a cornerstone of the Israeli economy, in this very spirit. Leumi leads in its contribution to Israel's resilience at the state and macro-level, as well as at the private individuals and corporate level, during times of prosperity and times of challenges.

In today's terms, Bank Leumi was established as a SPAC of sorts - raising money to fund a vision. Leumi fulfilled an important role both at the seed level, during its IPO in 1948, and the growth of Start-Up Nation. By the way, Israel's Declaration of Independence - which declares that Israel shall be developed for the benefit of all its residents based on the pillars of freedom, justice, equality and peace - was safekept in Leumi's vault in Beit Mani - its current office building. Leumi led the development of the monetary system in the young state, and acted as the central bank even before the Bank of Israel was established, issuing the first series of bills carrying the name "Bank Leumi of Israel" and signed by the then chairman of the board, Z. Hoofien. Bank Leumi continues to play a significant role in Israel's monetary system, including by leading the NIS-USD trading and promoting strategic collaborations with FinTechs. To boost that trend, Leumi established the Strategy, Digital, Data and Product Management Division. The Division was intended to boost the traction of digital, BigData and AI for customers.

Leumi has vowed to create an innovative, dynamic banking system which provides its customers with the most convenient service - using every mean, anytime and anywhere. Leumi's first branch opened in Jaffa in 1903. Later on, additional branches opened in Israel and dozens more across the world - from Alexandria and Beirut to South Africa and Australia. Some have closed over the years due to growing regulation, leveraging of technology and adaptation of the personal service model to customers' needs. We are proud to be serving customers who are active across the Middle East - in the United Arab Emirates, Bahrain and Morocco. Leumi USA is expected to merge, in due course, with US-based Valley National Bank, creating one of the US's 30 largest banks, in which Leumi will hold a significant stake - 14.2 percent. This is an important strategic transaction for the Israeli economy, which will boost collaboration between Israeli companies that are our customers and the US market. The expansion of the activity in both directions will also serve the high-tech sector - the Israeli economy's inclusive growth engine.

As we said - Bank Leumi leads in digitization and innovation. It was the first in Israel to place an ATM - on Dizengoff Street - in 1971. The "first direct bank" served as the first branch-less, digital bank. It was followed by Leumi Total Digital and the pioneering Pepper. Leumi updates its service model on an ongoing basis. The Bank has transitioned from a customer service model to a customer success model, with supportive involvement of the transition from Startup Nation to Scaleup Nation and Unicorn Nation. It is a full envelope of service and partnership - LeumiTech, Leumi Technologies, Leumi Partners and The Garage - by working for the success of our customers' businesses, in a changing environment of challenges and opportunities.

In addition to Leumi's longstanding leadership, our corporate responsibility has grown - responsibility for the environment, society and proper governance. This year, we chose to publish our ESG report at the same time as the financial statements, because as far as we are concerned - they are two parts of the same whole. The report shows that we update the credit and investment policy to create a healthy environment and support social initiatives which strengthen the values of tolerance, fairness and equal opportunity in the entire population. We contribute to youth-at risk, support financial education of smart consumption by the young generation, strengthen digital literacy, encourage employment mobility and promote employment diversity - including of Arab and ultra-Orthodox women in technological positions. In 2021, Leumi's investment in the community totaled NIS 38 million. Approximately 3,000 of Leumi's employees volunteered in myriad activities across Israel, donating 25,000 hours.

The Leumi Group has completed 2021 with a 187 percent year-on-year growth in net income - to NIS 6,028 million, reflecting a 15 percent return on equity, with most of its revenues and profitability coming from its core business and new growth engines for them. In the past year, we once again distributed a dividend to our shareholders, and with the publication of the 2021 financial statements - announced a NIS 588 million dividend, in addition to distributing NIS 2 billion in the second half of 2021. These 2021 banking results occur on the back of a 8.1 percent growth in Israel's GDP (vs. a 2.2 percent decrease in 2021), a local inflation of 2.8 percent (vs. a 0.7 percent deflation in 2020), a 3.3 percent appreciation of the shekel against the US dollar (compared to a 7 percent appreciation in 2020), and the Bank of Israel's interest rate remaining at the declared 0.1 percent. In addition, the gross world product grew by 5.9 percent in 2021 (compared to 3.1 percent in 2020).

To keep thriving, we invest in our bankers and promote an organizational culture of excellence, creativity, fairness, innovation and responsibility for the Bank's success. I cherish, from the bottom of my heart, the professional and dedicated work of our managers and employees. At the same time, I am grateful to our customers and investors for their ongoing faith in our way and in what we do.

Sincerely,

סאמר

Dr. Samer Haj Yehia
Chairman of the Board

March 8 2022

Report of the Board of Directors and Management

Overview, Goals and Strategy

Description of the Leumi Group's Business

The Bank is a "Banking Corporation" in accordance with the Banking Law (Licensing), 1981. The Bank is governed by laws, ordinances and regulations, as well as by rules, guidance and positions issued by regulators.

Leumi's Vision

"To introduce proactive, innovative banking for the benefit of customers"

Leumi undertakes to be the leading, most convenient bank in Israel and intends to continue to provide all of its customers with the best service possible, based on the wish to customize the service to each customer's needs.

Underlying the vision - which combines both leadership and convenience - is the aim to create a dynamic business environment that is based on the values of transparency, responsibility and fairness, alongside innovation and creativity. The environment strives to offer the best and most suitable solution to the financial needs of its customers, in addition to maintaining the Bank's stability, adequate profitability, meeting the expectations of the shareholders and upholding its employees' interests.

As a leading financial group in Israel, with significant impact on the entire public, Leumi evaluates the trends and changes in the business environment in which it operates and develops strategies that address these changes. In addition, and out of understanding of the Group's or impact on the business and public culture, Leumi also regards its commitment to the community as a social and ethical anchor it will continue to cultivate.

Objectives and Business Strategy

Leumi adopted an accelerated growth strategy in selected segments. Accordingly, a set of long-term business criteria was created, in light of which the Bank's Board of Directors monitors the implementation of the strategy. To fulfill its vision and strategy, the Bank has adopted, inter alia, the following modes of operation:

1. **Boosting digital service**
   Further expanding the provision of most banking products and services through digital means, while continuously simplifying the use of digital tools, so as to allow customers to have around-the-clock access to the services and to enjoy a convenient customer experience customized to their preferences. In addition, the Bank continues to provide professional, high-quality service to all types of customers according to their needs and preferences, while aiming to transition more and more customers to opt for digital services. As part of boosting the digital products and services, the automated underwriting capabilities - for providing retail and business credit - were strengthened and improved.

2. **Pepper - featuring Israel's first fully digital banking experience**
   Pepper provides retail banking services - from opening an account to conducting common banking transactions, such as loans, deposits, credit cards and investment in securities, using digital channels only. Pepper uses advanced technology and collaboration as a key differentiation means versus the competition, in order to expand its product value proposition to customers. Pepper offers customers all banking products - including credit products, savings, transfers, debit cards and more - anytime, anywhere, through mobile phones, digitally and independently. The products have been made accessible using a convenient and user-friendly interface, adapted to each customer's personal needs, using simple language.

3. **Leveraging data capabilities** - during the reporting period, the Bank established a division which concentrates data, digital product management and strategy under a single roof. This measure was carried out in order to implement the strategy supporting data-based banking and advanced models - both in marketing and pricing the banking products, and in the service and operating activity, while making these services and capabilities accessible by means of advanced digital tools.

4. **Creating advanced services and products** (and strengthening existing products) that are primarily based on technological innovation.
The products and channels through which new services are offered allow users to enjoy a personalized, innovative and advanced customer experience that meets the customer's needs in a friendly, fair and personalized manner. In 2021, the new Leumi App was launched - a novel app for retail customers, with an advanced user experience, which provides all financial information in one place. At the same time, Leumi worked on numerous other levels in order to provide advanced products and services to its customers:

   a. Videa - in 2018, the Leumi Group also founded Videa - an online investment portfolio management company. Videa manages customers' funds using an innovative algorithm. It offers online, transparent, straightforward investment portfolio management,

   b. Mortgage by Zoom - in an innovative, unique move, Leumi launched a service enabling customers of all banks to conduct a personal consultation session with a mortgage banker via Zoom, and to embark on a mortgage application process even without needing to arrive at a branch in order to sign the documents.

   c. Car loans - a service allowing Leumi customers and prospects to receive a car loan offer digitally in an agency with which the Bank has entered into an agreement.

   d. Ordering a credit card online - Leumi customers can order a new credit card using the Leumi App; this allows them to make immediate use of the card through their smartphones once the card has been issued. The physical card will arrive at the customer's residence a week later.

   e. Improved navigation and search on the retail and business websites.

   f. Transitioning from one bank to another - a new service on the secured website allowing customers to submit a request for transferring their financing activity from another bank to Bank Leumi. The service is also incorporated in the process of opening an account on the App, such that each client opening an account receives a link allowing them to transition to another bank.

5. **Collaboration with FinTechs** - to promote innovation and ensure an enhanced service experience to customers, Leumi promotes collaborations with innovative FinTech companies, according to the Open Banking Model. In this context, several types of collaborations may be noted:

   a. Business and marketing collaboration - such as Pepper - with Fibo (a FinTech), featuring an online solution for tax rebates to employees, performed digitally and swiftly; the service allows employed persons to check whether they are eligible for tax rebates up to 6 years back, free of charge.

   b. Business-technological collaboration, such as Pepper with EcoBill - for paying household bills directly from the app, providing insights an smart, swift bill payment.

   c. Technological collaboration, such as the one with Tarya Ltd., a FinTech which develops an advanced mortgage system.

Leumi regards the Open Banking Reform as an opportunity to expand its value proposition to its customers, so as to allow them to conduct financial activity using digital channels and to quickly adopt new technologies in general and financial technologies in particular.

In addition, as part of the innovation strategy, Leumi lately invested in an innovative initiative, in collaboration with leading Israeli high-tech entrepreneurs. In this framework, Leumi invested in a new venture capital fund, Garage Ventures, which will form and support FinTech, cyber (FinSec), data and ai startups.

The fund aims at investing in ventures seeking innovative technological solutions to problems and difficulties in the financial domain and will invest both in early-stage companies which have already developed a service or product and seed-stage companies.

6. **ESG** - Leumi's strategy involves an understanding that this developing domain is creating, alongside the risk, a wide set of business opportunities. Thus, the Bank is working to implement various initiatives arising from the changing reality of growing awareness to environmental risks and the importance of meeting ESG rules. For more information please see section entitled "Principal Trends in the Operating Environment".

How the strategy is implemented

To enable the realization of its vision and strategy, the Bank is divided into three main business lines, which specialize in providing banking and financial services to certain customer segments:

1. **Retail banking** - focuses on providing banking services, mainly to households (including mortgages), high-net-worth customers (Private Banking), and micro- and small business customers. Retail banking seeks to personally customize the service to customers' needs in a wide variety of channels at the same time (such as: the App, on the Internet, banking call centers, branches, service centers, terminals, information kiosks and ATMs).
2. **Mortgages** - a part of implementing a strategy of rapid growth in the operating segment, a special-purpose mortgage division was established during the reporting period, in order to ensure that the strategy in this domain is implemented with the utmost managerial, operation and service attention and support.
3. **Corporate and Commercial Banking** - focuses on providing services to Israeli and international corporations with varying scope of activities from a wide range of sectors. The Corporate and Commercial Banking business line aims to serve various customers, while maximizing value and examining means to expand its product and service offerings.
4. **Capital Markets and Financial Management** is engaged in the management of the Bank's own portfolio, assets and liabilities management (ALM) and also regulates the operation of the Bank's trading rooms, aiming to provide services to customers involved in the capital market activities, including institutional customers. Non-financial investments are primarily managed through Leumi Partners.

In addition to the Bank's business lines, which are managed directly by the Bank, the Leumi Group operates through its Israeli and foreign subsidiaries:

Activity of Israeli subsidiaries – non-financial investments, underwriting and investment banking activities, carried out mainly by subsidiary Leumi Partners. Another operation is subsidiary Leumi Capital Markets, which is Israel's leading provider of full-range operating services to financial entities.

Activity of foreign companies – is carried out by the subsidiaries Leumi USA and Leumi UK, which mainly engage in extending loans to corporate and commercial customers, and small businesses.

As part of implementing the Bank's strategy to boost growth in its foreign loan portfolio while minimizing regulatory risks, the following measures were taken for each of the foreign subsidiaries:

Leumi USA

During the reporting period, a transaction was signed to merge Bank Leumi Corporation (hereinafter - "BLC"), a US-based corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Bancorp (hereinafter - "Valley"). Following the closing of the transaction, which is expected to take place on April 1 2022, the Bank is expected to hold 14.2 percent of Valley's share capital and to be the largest shareholder in Valley, but not the controlling shareholder.

Leumi UK

Bank Leumi UK deals primarily with commercial banking, with emphasis on financing real estate and hotels, and even wholly owns Leumi ABL Limited, which is mainly active in the field of factoring (hereinafter – "**LABL**").

In 2021, BLUK implemented a strategic plan of focusing on and expanding its credit provision activity to real estate, hotels and ABL.

On March 8 2022, the Bank's board of Directors approved the recommendation of BLUK's board to implement a measure which includes returning BLUK's regulatory license, such that after the measure will have been completed, BLUK will be a credit provision company. To this end, BLUK will be merged into LABL (hereinafter – the "Merged Company").

The Merged Company will provide credit primarily in the fields of real estate, hotels and ABL, to customers in the UK and Europe, including Israeli customers active in these geographies.

For more information, please see under "Major Investee Companies"

It should be noted that strategic planning involves a considerable degree of uncertainty; the implementation of long-term strategic plans depends on several variables, including the performance of markets in Israel and abroad, the security situation, and the effects of ongoing regulatory changes whose scope and foci in the long-term cannot be predicted with a high degree of certainty.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under “Forward-Looking Information”.

Principal Trends in the Operating Environment

The abovementioned strategy adopted by Leumi is based on, and takes into account, inter alia, the following trends:

1. **The impact of the coronavirus on the global economy:**

   - Countries around the world are coping with the coronavirus crisis and its implications in various ways. In most countries, employees have yet to return to regular work, unemployment rates fluctuate from one surge to another, and an overall uncertainty permeates the markets. In addition, inflation is on the rise globally, especially in the US, causing expectations of a rise in interest rates. Combined, these criteria lead to high volatility in GDP growth.
   - To survive the crisis and enable growth, businesses require new achievements and capabilities, including development of systemic resilience, advanced analytical capabilities, leveraging of data and technology, as well as agility.

2. **Changes in consumer behavior:**

   - The growing use of technological channels - the fear of the coronavirus has led to a significant increase in consumers’ use of digital channels in lieu of physically arriving at the location in which the service is provided.
   - Thoughtful consumption - due to the decline in income, careful consumption has become ever more important.
   - Higher consumer awareness and changes in consumption behaviors - economic, social and technological changes providing greater accessibility to various channels of consumption, alongside greater sharing of information on social media, continue to raise consumer awareness to the alternatives and alter consumption habits.

3. **Changes in the competitive environment**

   - The Leumi Group operates in an increasingly competitive market in all of its operating segments. Its main competitors are other Israeli banks; however, in certain operating segments, competition is on the rise and among the Bank’s competitors are foreign banks, non-banking entities, institutional investors, credit card companies, as well as technology-based solutions (FinTech companies), and recently - even Big Techs such as Apple and Google, which entered the digital wallet domain in Israel this year.
   - Non-bank entities, mainly FinTech companies, continue to develop innovative solutions and/or products in the payments retail sector, but lately also in corporate banking and other areas. These solutions set a new customer experience benchmark and compete with banks in various domains. More and more banks worldwide collaborate with FinTech companies.

- In recent years, global BigTechs such as Amazon, Google, Facebook, Alibaba, Apple, PayPal, Intuit are offering alternatives to direct financial services to customers, typically focusing on payments, but also on other domains.

Additional information on competition:

Local banks

- The competition between the local banks continues to focus on households and on the small business and mid-market business sectors. A new digital bank recently received a permit from the Bank of Israel. An additional digital bank will soon launch, according to publications in the media. All the banks in the system advertise and launch value propositions to customers, based on technological and digital innovation, customer loyalty programs and launching unique products (such as mortgages, investment consultation, etc.).

Non-banking competitors

- Loans provided by institutional entities – in recent years, we have witnessed a clear trend of increase in loans extended to the business and commercial sector by institutional entities, including funding for infrastructure projects and rental properties and even funding the construction of residential projects. These entities are gradually entering the retail credit domain as well. On the investment side, these entities are also launching products which compete with traditional banking products, such as investment provident funds or savings policies.

- Furthermore, as a result of regulatory changes in recent years, which have encouraged such non-banking financial entities to extend consumer and commercial loans, the activity of non-bank entities has expanded consistently. It should be noted that currently, less than half of the credit extended to businesses in Israel is provided by domestic banks.

- Fintech and BigTech solutions which compete with specific banking areas of activity - in recent years, with the growing use of advanced technologies by consumers (primarily through smartphones and tablet devices), the choice and quality of innovative initiatives/technologies offering financial services based on advanced technology have grown significantly. These initiatives speed up innovation in the financial industry; while most do not compete head-to-head with the traditional banks, they threaten to reduce the banks' market share in certain areas of activity.

- As aforesaid, BigTech companies offer, at the very least, some of the classic banking services (such as in the payments domain), without being subjected to rigid banking regulation.

- The payments market: this year, Apple and Google began to provide mobile payments services (digital wallet) in Israel. Leumi customers can use their bank cards to enjoy these services. This constitutes an additional competitive domain.

Open Banking

During 2021, key milestones came into force in the Open Banking initiative. These allow customers of the banks and credit card companies to share their financial information with third parties, so they can receive competing value propositions from other parties.

The Bank also bases this activity on the advantages of the Open Banking initiative, with the aim of offering its customers, and allowing them, to use the most advanced products and services available.

Environmental, social and governance (ESG) aspects

- ESG is gaining traction globally and in Israel - among the public, investors, the media and regulation. While the regulation still lacks binding concrete quantitative targets, companies and business entities (including banks) are adjusting to these global trends.

- This constitutes forward-looking information, the materialization of which is uncertain and not under the Bank's sole control, taking into account that this is an "evolving" domain.

- As part of Leumi's effort to boost its contribution to ESG aspects, it developed an environmental management strategy in 2021, which was approved by management and the Board of Directors. While approving the strategy, Leumi decided to incorporate and boost ESG aspects in the Bank's business activity, inter alia, by increasing financing and investment in projects advancing a "greener" environment and development of environmentally-friendly financial products; their materialization also depends on regulatory, technological and social developments.

  As part of the implementing the strategy, the Bank is working to identify and promote business opportunities, encourages "green" initiatives, is developing the tools and expertise to develop financing products for "green" activity and invest in smart systems in order to preserve and develop the current situation.

These opportunities include, inter alia:
- Providing business credit for "green" ventures and companies
- Investing in "green" through the nostro account
- Investing in "green" companies and projects by subsidiary Leumi Partners
- Developing trading capabilities in "green" contracts
- The Bank is evaluating additional opportunities, such as issuing "green" bonds

The Bank aims to reach a target of NIS 35 billion for such initiatives by 2030.

In addition, the Bank is developing "green" products and value propositions for retail customers and is examining how to support its business customers in "going green".

The Bank is in the process of reducing its own emissions (cutting down areas, reducing its carbon footprint, transitioning to hybrid and electric transportation).

Some of the above information constitutes "forward-looking information". For the meaning of the term, please see under Forward-Looking Information.

Changes in the regulatory environment

- The regulatory environment is not applied uniformly in terms of its applicability to the various entities operating in the system, such that while the banking regulation is becoming increasingly onerous, there is no similar development in respect of regulation applicable to entities that are not banking corporations, resulting in a material difference and significant gaps between the various players.
- As aforesaid, the effect of regulation on the banking sector continues to grow. The growing number of regulations and their complexity limit the sources of income, lead to increased compliance expenses and require banks to constantly improve the levels of service and innovation.
- The growing regulation is reflected in directives (expressly) addressing competitive issues. For example various legislative initiatives were introduced and approved, with the aim to ease the entry of new players into the market, inter alia, by increasing the resources available to them, providing tiered regulatory easements, and granting reliefs for connecting to the payment and clearing systems, as well as transfer and sharing of information stored by banks. In this context, the following may be mentioned: the Open Banking Reform, the reform for spinning off the credit card companies from the large banks, and a series of infant industry protections and reliefs granted to them under the reform, the transitioning between banks reform, and the Bill for Encouraging the Development of FinTech in Israel, with the purpose of creating a regulatory framework which will allow FinTech companies to operate in Israel and in order to increase accessibility to various products and services, improve the level of service and competition and decrease the cost of financial services in Israel.
- In addition to more extensive and stricter regulation, the Bank is also subject to stringent compliance requirements (such as FATCA, CRS, tax offense as a predicate offense), as well as risk management requirements. The Bank is also subject to requirements passed during the coronavirus crisis.
- Thus, regulation has an immediate effect on a series of business and strategic decisions of the Bank, including with regard to the Bank's various areas of activity.

  For more information regarding the regulatory environment and the consequences of the main regulatory changes, please see the section entitled "Legislation and Regulations Governing the Banking System".

Condensed Financial Information and Key Performance Indicators

Following are the key performance indicators (in %)

	As at December 31				
	2021	2020	2019	2018	2017
Return on net income attributable to the Bank's shareholders	**15.0**	5.7	9.8[g]	9.5[g]	9.8
Return on net income attributable to the Bank's shareholders to average assets[d]	**1.0**	0.4	0.8	0.7	0.7
Ratio of income[b] to average assets[d]	**2.70**	2.55	3.02	3.05	3.05
Efficiency ratio	**46.8**	53.8	56.8[h]	60.6[h]	62.9
Ratio of net interest income to average assets[d]	**1.76**	1.70	1.92	1.97	1.84
Ratio of fees and commissions to average assets[d]	**0.60**	0.64	0.70	0.91	0.92
Rate of tax provision from profit, before taxes	**35.4**	38.8	33.9	33.0	35.2
Net interest income to average balance of interest-bearing assets (NIM)	**1.95**	1.90	2.14	2.19	2.05
Total income to total average assets under management by the Group[b][c]	**0.83**	0.81	0.91	0.94	1.00
Total operating and other expenses to average total assets under management by the Group[c]	**0.39**	0.44	0.52	0.57	0.63

	As at December 31				
	2021	2020	2019	2018	2017
CET1 capital ratio	**11.50**	11.87	11.88	11.07	11.43
Total capital to risk-weighted assets[a]	**14.21**	15.58	15.67	14.54	14.99
Leverage ratio[e]	**6.06**	6.57	7.35	7.05	6.94
Liquidity coverage ratio[e]	**124**	137	123	121	122
NSFR[i]	**131**				
Equity attributable to the Bank's shareholders to total assets	**6.3**	6.8	7.6	7.7	7.4

Key credit quality indicators (in %)

	As at December 31				
	2021	2020	2019	2018	2017
Loan loss expenses (income) in respect of average outstanding loans to the public	**(0.25)**	0.88	0.22	0.19[f]	0.06
Of which: Expenses (income) for collective provision for average outstanding loans to the public[f]	**(0.10)**	0.65	0.20	0.26[f]	0.20
Percentage of balance of loan loss provision for loans to the public out of outstanding loans to the public	**1.30**	1.76	1.16	1.21[f]	1.18
Percentage of impaired loans to the public in arrears of 90 days or more out of outstanding loans to the public	**1.12**	1.61	1.23	1.34[f]	1.60
Percentage of net accounting write-offs out of average loans to the public	**0.03**	(0.18)	(0.24)	(0.09)[f]	(0.15)

(a) Capital - including non-controlling interests and various adjustments.
(b) Total income - net interest income and noninterest income.
(c) Including off-balance-sheet operations.
(d) Average assets are the total assets - income-generating and others. For more information, please see Appendix 1 - Income and Expenditure Rates and Analysis of Changes in Interest Income and Expenses.
(e) For more information regarding the leverage ratio, please see "Equity and Capital Adequacy" under "Structure and Development of Assets, Liabilities, Equity and Capital Adequacy". For more information regarding the liquidity coverage ratio, please see section entitled "Risk Exposure and Management Thereof".
(f) Including balances classified as held-for-sale assets and liabilities. For more information regarding the held-for-sale operation, please see section entitled "Main Changes in the Reporting Period" and Note 36F to the financial statements as at December 31 2018.
(g) Return on equity in 2019 and 2018, net of the effect of Leumi Card, was 9.2 percent and 9.0 percent, respectively.
(h) The efficiency ratio in 2019 and 2018, net of the effect of Leumi Card was 58.1 percent 60.5 percent, respectively.
(i) NSFR calculated as of the financial statements as at December 31 2021. For more information, please see the Liquidity and Financing Risk.

Main Environmental, social and governance (ESG) aspects for 2021

E - Environmental	Approximately NIS 12.1 billion in credit has been earmarked to advance environmentally-friendly financing
	Approx. NIS 400 million in investments in "green" projects through Leumi Partners.
	The Group's carbon footprint was down 2.6 percent (from 2020)
	The Bank's energy consumption was down 4 percent, due to environmentally-friendly initiatives we undertook (from 2020)
	100% recycling of paper waste
	NIS 24.4 million in "green" procurement
	82 percent of the electricity consumed by Leumi is from a private power producer
S - Social	Gender equality at Leumi: Women constitute 60 percent of all employees, 54 percent of senior management and 47 percent of branch managers
	NIS 5.1 billion in credit was granted to promote social issues
	Gender equality at Leumi: Women constitute 42 percent of the 10 percent of highest earners at Leumi
	NIS 38 million - community outreach budget
	93 percent of Leumi's procurement is locally sourced
	NIS 60.4 million was procured from companies promoting the hiring of persons from under-employed populations
	205,000 hours were invested in teaching and training Leumi Group employees in 2021
	18.7 percent of the employees hired by the Group are from under-employed populations
	No. of volunteer hours by employees – 25,546 hours
G - Governance	30 percent of Leumi's board members are women
	97 percent of Leumi's employees participated in anti-bribe and anti-corruption training (included in the compliance training)

Following are the main income statement data for the reporting year

	2021	2020	2019	2018	2017
	In NIS millions				
Net income attributable to the banking corporation's shareholders	**6,028**	2,102	3,522	3,257	3,172
Interest Income, Net	**10,346**	8,723	8,841	8,890	8,046
Loan loss (income) expenses	**(812)**	2,552	609	519	172
Noninterest income	**5,511**	4,366	5,081	4,871	5,342
Of which: fees and commissions	**3,506**	3,281	3,225	4,121	4,052
Total operating and other expenses	**7,428**	7,046	7,908	8,337	8,415
Of which: salaries and related expenses	**4,242**	3,742	4,325	4,544	4,591
Net earnings per share attributable to the banking corporation's shareholders (in NIS):					
Basic earnings	**4.15**	1.44	2.37	2.15	2.08
Diluted net earnings	**4.15**	1.44	2.37	2.15	2.08

Following are the main balance sheet data as at the end of the reporting year

	2021	2020	2019	2018	2017
	In NIS millions				
Total assets	**656,454**	556,035	468,781	460,560	450,916
Of which: cash and deposits with banks	**197,402**	136,194	76,213	80,113	81,333
Securities	**86,927**	92,297	84,949	74,571	77,299
Loans to the public, net	**342,879**	295,341	282,478	272,602	268,764
Total liabilities	**614,402**	517,940	432,907	424,399	417,363
Of which: deposits by the public	**537,269**	447,031	373,644	364,714	362,854
Deposits by banks	**25,370**	15,143	6,176	5,210	4,858
Bonds, promissory notes and subordinated bonds	**15,428**	16,303	19,958	17,798	15,577
The banking corporation's shareholders' equity	**41,610**	37,664	35,406	35,305	33,167
Additional data:					
Price per share (in NIS)	**33.5**	18.9	25.1	22.6	21.0
Dividend per share (in agorot)[(a)]	**137.48**	20.29	93.48	90.62	41.19
Average number of jobs	**8,664**	9,080	9,621	11,208	11,623

(a) According to the declaration date.

Forward-Looking Information in the Report of the Board of Directors and Management

The Report of the Board of Directors and Management includes, in addition to data relating to the past, information and assessments relating to the future, defined in the Securities Law, 1968 (hereinafter: the "Law") as "Forward-Looking Information". Forward-looking information relates to a future event or matter, the materialization of which is uncertain and not under the Bank's exclusive control.

Forward-looking information is generally worded using the following words or phrases: "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "targets", "likely to impact", "estimate", "scenarios", "likely", "may", "can", "will be", "optimistic", "pessimistic" and additional phrases indicating that the matter in question is a forecast of the future rather than past facts.

Forward-looking information included in the Report of the Board of Directors and Management is based, inter alia, on forecasts of various matters related to economic developments in Israel and abroad, especially the currency markets and capital markets, legislation, regulators' directives, competitors' behavior, technological developments and human resources issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may differ from those forecasted, users should treat information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of the Leumi Group may be materially different.

The Bank does not undertake to publish updates on forward-looking information included in its reports. This does not derogate from the Bank's reporting obligations pursuant to any law.

Main Risks Inherent in the Operations of the Bank

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.
This risk is embodied in the Group's core business and is reflected in its activities with corporate, commercial and retail customers, as well as in the Group's own portfolio activity. The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, Proper Conduct of Banking Business Directive 311A, "Management of Consumer Credit" and Proper Conduct of Banking Business Directive No. 314, "Sound Credit Risk Assessment and Valuation for Debts", including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department's directives.

For more information on the Bank's credit risk and its management, please see the section entitled "Credit Risks".

Market risks, including liquidity risk - Market risk is the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. Liquidity risk is the risk arising from uncertainty regarding the possibility of raising sources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. Ongoing market risk management plays a supporting role in the achievement of the Bank's business objectives and assesses the expected profit against the damages and losses that may result from exposure to these risks. Management of market risk exposures is carried out on a dynamic basis in compliance with a set of restrictions prescribed by the Board of Directors and Risk Committees, in order to contain the effects of market exposures on fair value, accounting profit, capital reserves and liquidity position.

For more information on market risk and market risk management, please see the section entitled "Market Risks". For more information on liquidity risk and liquidity risk management, please refer to the "Liquidity and Financial Risk" section.

The Bank's function as a financial intermediary involves operational risks, including, inter alia, information security and cyber risks, IT and innovation risks, embezzlement and fraud risks, business continuity risks, legal and compliance risks.

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

Information security and cybersecurity risks - potential for material damage arising from a cyber event, which may result in information theft, in theft of financial assets and/or disruption to the operational continuity (by disrupting information and/or compromising availability).

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 350 and while applying risk identification and risk management processes, as well as control, monitoring and reporting mechanisms.

For more information regarding operational risk and the management thereof, please see the section entitled "Operational Risks".

Trends, Phenomena, Developments and Material Changes

Main Developments in the Israeli Economy[1]

General Background - the Coronavirus Pandemic

In 2021, the coronavirus pandemic continued; towards the end of the year, and even more so at the onset of 2022, the fifth surge of morbidity emerged, characterized by a high infection rate causing widespread morbidity among Israelis, as well as around the world. Despite the aforesaid, according to the assessment of the Bank of Israel: "The Israeli economy continues to function continuously on a high level alongside the coronavirus and on against the background of cyclical morbidity surges. This activity is made possible, inter alia, due to the adjustments made by most economic sectors to functioning alongside the pandemic. It appears that the fifth surge in Israel is in the process of declining. However, the risk for continued cycles off morbidity in the future and the development of new variants of the virus is still present, and causes continued uncertainty regarding the intensity of economic activity expected in the economy in the short to mid-term."

Near the Report's publication date, more than 3.6 million people have been infected by the virus and more than 10,000 people have died in Israel. In December 2020, Israel began to vaccinate its population, and more than 6.7 million people (near the report's publication date) have been given the first of two doses, with approximately 6.1 million people having been given the second dose. On the back of a surge in morbidity in the third quarter of 2021, it was decided to administer a third dose of the vaccine. Near the Report's publication date, more than 4.4 million people have been given this third dose. Due to the spread of the Omicron variant, which brought about the fifth surge, it was decided to offer a fourth jab to certain sections of the population; near the report's publication date, approximately 0.7 million residents were inoculated for the fourth time.

The Global Economy

On January 25 2022, the International Monetary Fund (IMF) revised its economic activity estimates for 2021 and its forecast for 2022. Relative to the previous forecast of October 2021, there was no change in the estimates of global growth rate for 2021, but there were changes in various countries' growth rates: growth rates were upgraded in the Euro Zone countries and the UK and downgraded in the US economy. According to the current estimate, the gross world product expanded by approximately 5.9 percent in 2021, compared with a 3.1 percent decline in 2020. As for the large Western economies - the US economy grew by 5.6 percent this year, compared to 6 percent in the previous forecast. Compared to 2022, the IMF predicts a slowdown in global activity, with the gross world product expected to grow by 4.4 percent, mostly due to a slower growth rate in the US (on the back of less expansionary budgetary and monetary policies and the continued effect of the supply chain issues), and China - due to strict restrictions on the back of the Omicron surge and a slowdown of real estate activity. This forecast is subject to mitigating the adverse effects of morbidity by the end of 2022, based on the effect of improving inoculation rates and effective medications to treat infected patients.

Global growth/real change rate
Source: IMF - World economic outlook/January 2022

	2021	2020
World	**5.9%**	(3.1)%
USA	**5.6%**	(3.4)%
Eurozone	**5.2%**	(6.4)%
Japan	**1.6%**	(4.5)%
UK	**7.2%**	(9.4)%
China	**8.1%**	2.3%

The short-term interest rates of the Fed and European central banks remained unchanged in 2021. However, the banks started "signaling" to the public, as part of the interest rate decisions, of an expected change in approach - initially by

[1] Data sources: publications by the Central Bureau of Statistics, Bank of Israel, Ministry of Finance, Tel Aviv Stock Exchange, the IMF.

reducing the quantitative easing, while in the US, for example, it is increasingly believed that the interest rate will rise as early as March 2022. England's central bank, however, began to raise the interest rate in December 2021. Similarly to the process that began earlier in other countries, especially in emerging markets. This is due to the rise in inflation, which in many countries exceeds their central banks' targets, and which is due both to effects of the supply side of goods and services and due to the recovery in demand, which in some areas has been pent up since the onset of the pandemic.

In late February 2022, a war broke out between Russia and Ukraine, which is continuing at this time. Due to the short time that has elapsed since then - until the closing of the financial statements, and due to the significant uncertainty, it is still too early to assess the full adverse effect of this geopolitical event on the Israeli economy. However, due to the characteristics of the commercial relations between these countries and Israel, the direct effect may be limited to a few industries which have production operations in Ukraine and Russia and/or which may have major customers in these countries. Most of the effects are expected to be indirect, as a result of global processes, such as lower global growth rates, in addition to an increase in the prices of commodities imported into Israel (such as food) and the sharp increase in energy prices around the world. In addition, the growing uncertainty is adversely affecting financial markets globally as well as asset values and - as a result –households and businesses in Israel.

Growth in the Israeli Economy

The Israeli economy grew by a real 8.1 percent in 2021, vs. a 2.2 percent decline in GDP in 2020. The main contributors to the rapid growth was private consumption and goods and service exports. In the fourth quarter of the year, the growth rate (compared with the third quarter) was an annualized 16.6 percent, with all of the GDP components exhibiting double-digit growth. The unemployment rate under the usual definition ("unemployed") at the end of 2021 was higher than prior to the crisis, although the January 2022 data show a decline to pre-crisis levels (higher than the February 2020 figure and lower than the January 2020 figure). The unemployment rate under the "broad" definition (which includes not only unemployed individuals but also employees who are temporarily absent from the work force due to the coronavirus, as well as employees who do not participate in the workforce and have been terminated as of March 2020) - which has been published by the Bureau of Statistics since the onset of the pandemic - pointed at an improvement trajectory in 2021, featuring a decline in unemployment. In December 2021, 262 thousand workers (approximately 6.0 percent of the work force) meet the broad definition of unemployment. This, versus 537 thousand workers (approximately 12.9 percent of the work force) in December 2020. In January 2022, the rate was 5.6 percent, the lowest since the onset of the pandemic.

The State Budget and its Funding

In 2021, the state budget deficit was NIS 68.7 billion (4.5 percent of the GDP) compared with a deficit of NIS 160.3 billion (about 11.4 percent of the GDP) in 2020. The reason for the decrease in deficit, compared to the deficit in 2020, lies in a sharp increase in the state's income and a drop in expenses. following the reopening of the economy and its positive effect on economic activity, resulting in higher taxes, both from direct and indirect tax collection.

During most of last year, the Government operated based on a continuous budget (since the state budget for 2021 was not approved), with the law defining spending limits (annual and monthly) and a spending hierarchy by order of importance. In August 2021, the government approved the budget for 2021-2022, which was approved in its second and third reading by the Knesset, in November 2021.

Foreign Trade

In 2021, Israel's trade deficit reached USD 32.8 billion versus a USD 21.3 billion deficit in 2020. The substantial increase in the deficit stems from significant expansion of 30 percent of imports, in USD nominal terms, compared to a more moderate increase of 19 percent in exports. The quick expansion in imports is reflected in each of its core components: imports of consumer products, investment products and raw materials (including energy products, given the increase in prices). These trends reflect a recovery trajectory in the economy, following a shrinking in the economic activity (decline in GDP) in 2020, as a result of the pandemic. However, the increase in the imports surplus (increase of approximately USD 11.5 billion) mitigates the surplus of the balance of payments current account, which totaled approximately 5.5 percent of GDP in 2020 (the data for 2021 have yet to be published). However, the service exports data for the first eleven months of the year reflect a continuation of the rapid growth, compared to the corresponding period last year, with emphasis on exported services provided by the high-tech industry. This increase significantly mitigates the effect of the increase in commercial deficit.

Exchange Rate and Foreign Exchange Reserves

In 2021, the shekel appreciated against the US dollar by 3.3 percent, and appreciated 10.8 percent against the euro; a 7.9 percent appreciation was recorded against the currency basket. Some of the substantial growth is due to the basic positive factors of the Israeli economy, reflected in a large surplus in the balance of payments current account and substantial inbound capital flows. As background, the Bank of Israel noted that a high volume of foreign currency exchange transactions by institutional investors and foreign investors was recorded, resulting in the shekel's appreciation. Foreign currency purchases by the Bank of Israel helped mitigate the shekel's appreciation trend.

At the end of December 2021, the Bank of Israel's foreign exchange reserves stood at approximately USD 213 billion compared to USD 173.3 billion as at the end of December 2020. The substantial increase in the balances is mainly explained by foreign currency purchases of USD 34.8 billion made by the Bank of Israel.

On January 14 2021, the Bank of Israel announced it would purchase in 2021 USD 30 billion on the foreign currency market. As aforesaid, the actual purchases of foreign currency during 2021 totaled USD 34.8 billion.

With regard to the Bank of Israel's future policy in the foreign exchange market, the Governor of the Bank of Israel said on January 3, 2022, that the "USD 30 billion plan we launched in 2021 was a special plan for special times. As I have said on more than one occasion, we are now no longer limited in our intervention. The Bank will continue to operate on the foreign exchange market as needed while taking the economic activity into consideration."

Inflation and Monetary Policy

The "in lieu" consumer price index (CPI) was up 2.8 percent in 2021, the fastest rate since 2009, but is within the band of the price stability target (1-3 percent). This is contrary to many countries, where inflation indicators are higher than the targets of their central banks. The main explanations for the rapid rise is the almost full reopening of the economy during most of the year, following the lockdowns in 2020, which allowed for the rise in demand (some of which was pent up) on the one hand, and on the other hand - the emerging global trend of rising prices of raw materials and transport. Similar and even stronger phenomena were reported in other Western economies.

In 2021, the "known" CPI was up 2.4 percent.

In 2021 there was no change in the Bank of Israel interest rate, which was 0.1 percent, similar to its level in April 2020.

According to the Monetary Committee's interest rate decision as at February 21 2022, the interest rate did not change; the Committee noted that despite the coronavirus, the Israeli economy recorded high growth and that various indicators point to an impressive continued growth rate. Therefore, the Committee believes that in the following months, conditions will allow the beginning of a gradual process of increasing the interest rate according to the inflation trajectory, growth rate and employment rate. The objective is to continue to support the fulfilment of policy targets and to ensure the continued adequate activity of financial markets."

Israel's Capital Market

The Shares and Convertible Securities Index was up 30.9 percent during 2021, following a 0.4 percent decrease in 2020. This is the highest percentage increase since 2009. The price increases were affected by the morbidity situation during the year - a positive effect due to the vaccination drive, which led to a decline in morbidity rates and to the reopening of most of the economy in the second quarter; in the third quarter, a fourth surge of morbidity began, which did not result in closures of the economy. The budgetary and monetary policy means, which supported Israel's economic activity, in addition to the recovery in growth worldwide, are reflected in good macroeconomic indicators, which were published during the year, as well as the high profitability of many publicly-traded companies. These factors, in addition to the budget - which was passed in November 2021, contributed to rising prices.

The average daily trade volume of shares and convertible securities in 2021 totaled NIS 1.878 billion, an increase of 1.1 percent over the average level in 2020.

During 2021, the government bond market was affected by the reopening of the economy and the increase both in actual inflation and inflation expectations for the coming years, similar to the situation in the bond markets of other developed countries. Thus, the CPI-Linked Government Bond Index was up last year 7.4 percent, while the Unlinked Government Bond Index was down 0.8 percent.

The CPI-linked non-government bond index (corporate bonds) was up by 8.7 percent in 2021, both due to the expectation for an increase in inflation and the re-opening of the economy, which is also reflected in the companies' position.

The Israeli Government's Relief Program

The coronavirus crisis, which broke out in March 2020, led the government to formulate an economic plan to assist the economy in coping with the crisis, in the amount of NIS 202.3 billion for 2020-2021, which was revised in August 2021, to NIS 187.7 billion. This is on the back of the economy's recovery and the decline in demand for state-backed loans, which resulted in a decrease in the total assistance amount through credit and cash flow. Out of the revised plan, as aforesaid, approximately NIS 136.8 billion constitute budgetary assistance for the said period (approximately NIS 68.2 billion for 2021). As of the end of December 2021, the performance rate out of the two-year plan was approximately 93 percent.

The Bank of Israel's Monetary Program

Beginning in March 2020, the Bank of Israel took measures - through a series of policy measures, beyond decreasing the interest rate to 0.1 percent in order to support the financial markets - to assist by implementing the monetary policy and help the customers of the banking system, businesses and consumers. For more information, please see the 2020 Financial Statements. During 2021, the actions included the following:

1. In 2020, it was decided to engage in open market activity, including purchasing NIS 85 billion in redeemable government bonds of various types and durations in the secondary market. As of December 31 2021, purchases reached NIS 85 billion and the Bank of Israel ended this program.
2. Executing repo transactions with government bonds as well as corporate bonds rated AA and above, as collateral, with financial institutions. As of December 31 2021, transactions reached NIS 0.1 billion and the Bank of Israel announced that this possibility is no longer available as at the end of 2021.
3. The Bank of Israel offers banks long-term loans for the purpose of providing credit to small businesses. Total loans under these schemes reached NIS 40 billion as at December 31 2021. On July 5 2021, the Bank of Israel announced that the phase in which banks were offered loans at minus 0.1 percent has been concluded, as planned, in June 2021, and the phase of offering them loans at a rate of 0.1 percent will conclude on October 1 2021, or after NIS 40 billion will have been utilized.

These measures by the Bank of Israel boosted stability in the financial markets, thus enabling the Bank to help its customers both in the business segment and household segment.

Impact of the coronavirus crisis

In 2021, the coronavirus pandemic continued; towards the end of the year, and even more so at the onset of 2022, the fifth surge of morbidity emerged, characterized by a high infection rate causing widespread morbidity among Israelis, as well as around the world. Central banks across the world are still using a variety of tools to support economic activity; however, only in some of these countries changes have been made, and monetary expansion is on the decline.

Towards the end of 2020, vaccinations were authorized; in some leading world countries, the vaccination process appears to be relatively successful, which has contributed to the lifting of restrictions. In other countries, the vaccination process has been relatively slow to date; therefore, these countries - especially emerging ones - are still relatively substantially exposed to the economic risks arising from restrictions imposed due to the morbidity rates.

The loan loss income in 2021 totaled NIS 812 million; this income was materially affected by collections, declining morbidity rates, improvement in macroeconomic parameters and economic expansion in Israel in 2021, of which a revenue of 0.10 percent was recorded in the collective provision. The effects of the measures and aid programs approved at the beginning of the crisis are dwindling, following positive indications regarding the population segments which enjoyed these aid programs - both among households and business borrowers, such as: the high rates of borrowers who resumed their regular payments following the deferment period, the low rate of borrowers in arrears out of the borrowers who resumed payments, the high rate of borrowers given state-backed loans who have begun to repay them, the low rate of borrowers in arrears out of this population, etc.

To adequately reflect the improvement in financial data in 2021 compared with 2020, and due to the continuous nature of the crisis, the Bank continued to examine, during the fourth quarter of 2021, the key criteria for the provision-making process, and made the required revision thereto; in the process, it took into account the developments outlined above as well as the assessments whereby the risk of additional harm to the business activity as a result of the epidemiological aspect is still present but lower compared to the onset of the event; this is due to the high vaccination rates among Israel's population, the introduction of new medications to treat symptoms and mitigate severe morbidity, and the economy's adjustments to activity made during surges in morbidity. Additional changes in management's assessments, estimates and forecasts may significantly impact the loan loss provision.

The Bank continues to explore ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis. In this context, emphases in credit granting are continually being honed, and risk focal points and market developments are being monitored on a regular basis, while making preparations and adjusting the activity.

For more information, please see the section entitled "Credit Risks".

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Major and Emerging Risks in the Operating Environment

In recent years, major emerging risks arise from the Bank's operating environment, which has been highly affected by risks related to regulation and legislation, a volatile macro-economic environment, and changes in the business model - including the transition to digital "new banking" and new social and consumer trends. In recent years, due to the changes in the competitive environment, consumer environment, regulatory environment and technological environment, non-financial risks have been on the rise.

Following are the most material leading and emerging risks:

- Strategic risk.
- Information security and cyber risk.
- Technology risk.
- Regulatory risk.
- Environmental Risk
- Conduct risk.
- Macroeconomic risk.

For more information regarding these risks, please see section “Risk Exposure and Management Thereof”.

Main Changes in the Reporting Year

Agreement with Tarya

In March 2021, the Bank entered into an agreement with Tarya for the joint development of a mortgage system for the Bank and Tarya.

The amount due to Tarya under the agreement is immaterial to the Bank.

Leumi Partners Ltd.

For information regarding transactions made by Leumi Partners during 2021, please see the section entitled “Major Investee Companies”.

Bank Leumi USA

On September 23, 2021, BLC, a US-incorporated corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley.

For information on the transaction, please see the section entitled “Major Investee Companies”.

Following is the consolidated income statement, presenting BLUSA's[a][b] results in a separate line

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Interest income	**10,863**	9,300	10,379
Interest expense	**1,298**	1,368	2,362
Interest income, net	**9,565**	7,932	8,017
Loan loss (income) expenses	**(842)**	2,334	533
Interest income, net after loan loss expenses	**10,407**	5,598	7,484
Noninterest income			
Noninterest finance income	**1,694**	970	1,640
Fees and commissions	**3,335**	3,135	3,070
Other income	**281**	34	162
Total noninterest income	**5,310**	4,139	4,872
Operating and other expenses			
Salaries and related expenses	**3,861**	3,375	3,969
Buildings and equipment - maintenance and depreciation	**1,392**	1,410	1,400
Other expenses	**1,558**	1,639	1,907
Total operating and other expenses	**6,811**	6,424	7,276
Profit before taxes	**8,906**	3,313	5,080
Provision for profit tax	**3,188**	1,312	1,752
Profit after taxes	**5,718**	2,001	3,328
The banking corporation's share in associates’ profits, after tax	**310**	101	194
Of which: The banking corporation's share in BLUSA’s profits[b]	**218**	113	215
Before attribution to owners of non-controlling interests	**6,028**	2,102	3,522
Attributable to non-controlling interests	**-**	-	-
Attributable to the Bank's shareholders	**6,028**	2,102	3,522

(a) Excluding offsetting of inter-company transactions between the Bank and Leumi USA.
(b) Bank Leumi USA includes the results of BLUSA and BLC.

The expected gain for the Bank at the closing date is NIS 650-750 million, after tax. The final gain will be determined in accordance with the share price, BLC’s shareholders’ equity and the exchange rate at the closing date. The Bank estimates that the transaction will improve Leumi’s capital ratios by 0.5 percent.

Following is the consolidated balance sheet, presenting BLUSA's[(a)(b)] results in a separate line

	December 31		
	2021	2020	2019
	In NIS millions		
Assets			
Cash and deposits with banks	**195,722**	136,117	76,911
Securities	**81,778**	87,677	80,202
Loans to the public	**329,201**	283,121	267,839
Loan loss provision	**(4,245)**	(4,993)	(3,138)
Loans to the public, net	**324,956**	278,128	264,701
Loans to governments	**940**	632	744
Investments in associates	**1,113**	795	765
Buildings and equipment	**2,618**	2,805	2,870
Intangible assets and goodwill	**-**	-	-
Assets for derivatives	**13,953**	15,100	10,910
Other assets	**6,935**	8,358	7,777
Securities borrowed or purchased under reverse repurchase agreements	**2,447**	3,019	1,117
Investment in subsidiary BLUSA	**2,340**	2,301	2,521
Total assets	**632,802**	534,932	448,518
Liabilities and capital			
Deposits by the public	**514,968**	427,517	354,507
Deposits by banks	**25,370**	15,036	6,078
Deposits by Governments	**299**	193	184
Securities loaned or sold under repurchase agreements	**2,046**	353	123
Bonds, promissory notes and subordinated bonds	**15,428**	16,303	19,958
Liabilities for derivatives	**15,475**	17,191	11,464
Other liabilities	**17,601**	20,670	20,793
Total liabilities	**591,187**	497,263	413,107
Non-controlling interests	**5**	5	5
Capital attributable to the banking corporations' shareholders	**41,610**	37,664	35,406
Total capital	**41,615**	37,669	35,411
Total liabilities and capital	**632,802**	534,932	448,518

(a) Excluding offsetting of inter-company transactions between the Bank and Leumi USA.
(b) Bank Leumi USA includes the results of BLUSA and BLC.

Material Changes in Financial Statement Items

Net income attributable to the banking corporation's shareholders was NIS 6,028 million in 2021, compared with NIS 2,102 million in 2020.

Return on equity in 2021 was 15.0 percent compared with 5.7 percent in 2020.

Return on equity in the fourth quarter of the year was 14.8 percent, compared with 9.8 percent in the fourth quarter of last year. The significant increase in the return on equity is due to a material increase in income, in addition to a moderate increase in expenses and a decrease of the loan loss provision compared to a significant increase in the loan loss expense in the same period last year.

On March 8 2022, the Board of Directors approved a dividend payment of NIS 588 million, which constitutes 40 percent of the profit for the fourth quarter of 2021, in addition to a NIS 2 billion dividend distribution in the second half of 2021.

Net interest income in 2021 totaled NIS 10,346 million, a 18.6 percent increase compared to 2020. The increase in the interest income stems from the increase in the Bank's loan portfolio and from the gaps in the CPI from one year to another, which were partly offset by the effects of the decrease in the Federal Reserve's interest rate and the interest rate of the Bank of Israel. In 2021, the CPI was positive, at 2.4 percent, compared with a negative 0.6 percent in 2020.

Loan loss expenses (income) in 2021 reflect an income rate of 0.25 percent of the average outstanding loans to the public vs. a 0.88 percent expense rate in 2020. Income during 2021 arises from the specific provision, particularly as a result of collections, and from the collective provision, on the back of the economic expansion, the drop in morbidity and the improved macro-economic parameters recorded during 2021, circumstances which led to a recorded collective loan loss income of 0.10 percent in 2021. In the fourth quarter of 2021, an income of 0.10 percent of the average outstanding loans to the public was recorded, compared to a **collective loan loss expense of** 0.37 percent in the same quarter last year. Income for the fourth quarter stems from the specific provision, mainly on the back of collections.

The rate of loan loss provision relative to the outstanding loans as at December 31 2021 was 1.3 percent.

For more information, please see section entitled "Credit Risks" below.

Noninterest finance income totaled NIS 1,714 million in 2021, compared to NIS 1,026 million in 2020. The increase in income stems mainly from the sale of Retailors shares for a total of NIS 313 million, from realized and unrealized gains on ironSource shares totaling NIS 205 million and from the effect of derivatives and exchange rate differentials. It should be noted that 2020 was significantly affected by the volatility of the capital markets, due to the outbreak of the coronavirus last year.

The operating and other fees and commissions in 2021 were up by NIS 225 million compared to 2020. Most of the increase is on the back of fees and commissions from securities, fees and commissions from financing activities, credit handling fees and credit card fees.

Other income totaled NIS 291 million compared to NIS 59 million in 2020. Most of the increase stems from a gain on the sale of buildings during 2021.

Operating and other expenses were up by NIS 382 million in 2021 - compared to 2020, a 5.4 percent increase.

Salaries and related expenses were up by NIS 13.4 percent, mainly due to provisions for bonuses in respect of the financial results.

Other operating expenses (including the maintenance expenses and depreciation) were down 3.6 percent.

The **efficiency ratio** for 2021 improved and was 46.8 percent, compared with 53.8 percent in 2020.

The efficiency ratio for the fourth quarter of the year was 47.9 percent compared to 50.7 percent in the fourth quarter last year.

Basic earnings per share attributable to shareholders of the banking corporation in 2021 totaled NIS 4.15 compared to NIS 1.44 in 2020.

The **Common Equity Tier 1 (CET1)** to risk components ratio as at December 31 2021 was 11.50 percent. The total capital ratio as at December 31, 2021 was 14.21 percent.

For more information, please see Note 25B.

For more information regarding quarterly results, please see the appendix "Consolidated Income Statement - Multi-Quarter Information".

Material Developments in Income, Expenses and Other Comprehensive Income

Interest Income, Net

	For the year ended December 31			
	2021		2020	
	Interest income (expenses)	% of income (expense)	Interest income (expenses)	% of income (expense)
	In NIS millions	In %	In NIS millions	In %
Interest income	11,672	2.20	10,175	2.22
Interest expense	1,326	0.36	1,452	0.44
Interest Income, Net	10,346	1.84	8,723	1.78
Net yield on interest-bearing assets (NIM)		1.95		1.90

In 2021, there was an increase in the net interest income compared to 2020 mainly as a result of an increase in the Bank's loan portfolio and from the CPI differences from one period to another, which were partly offset by the effects of the decrease in the Federal Reserve's interest rate and the interest rate of the Bank of Israel.

The CPI in 2021 was a positive 2.4 percent, compared with a negative CPI of 0.6 percent in 2020. Net interest income in 2021 was positively affected by the positive CPI in the amount of NIS 802 million, while in 2020, the results were adversely affected by the negative CPI by a total of NIS 101 million.

The rate of income was down 0.02 percent year-on-year, mostly due to the decrease in the risk-free NIS and USD interest rates and erosion of credit spreads, a change in the credit mix - and from an increase in balances of liquid assets, most of which were offset by the said CPI's effect.

The expense rate was down 0.08 percent year-on-year, mostly due to the decrease in the risk-free NIS and USD interest rate, a change in the liability mix and an increase in the current accounts' share, which were partially offset by the CPI's effect.

As a result, there was an increase of 0.05 percent in net return on interest-bearing assets in 2021, as well as an increase in the interest rate spread; the total interest rate spread in 2021 is 1.84 percent, compared to a 1.78 percent spread in 2020.

Below are data on interest spread from activity in Israel by linkage segment:

In the CPI segment, the interest rate spread in 2021 was 1.46 percent, compared with 1.12 percent in 2020. In the foreign exchange segment, the total interest spread in 2021 was 0.88 percent, compared with 0.78 percent in 2020. In the non-linked NIS segment, the interest rate spread in 2021 was 1.76 percent, compared with 2.00 percent in 2020.

Net interest income in the fourth quarter of the year totaled NIS 2,553 million, a 15.2 percent increase compared to the corresponding period last year. The CPI in the fourth quarter of the year was a positive 0.2 percent, compared with an unchanged CPI in the corresponding period last year. The increase in the net interest income compared to the corresponding quarter last year is mainly on the back on the growth in the loan portfolio.

For more information regarding interest income and expenses, please see Appendix 1 - "Income and Expenditure Rates and Analysis of Changes in Interest Income and Expenses".

For more information, please see "Main changes in the operating results of the regulatory segments" under "Regulatory operating segments".

Loan Loss Expenses

	For the year ended December 31		
	2021	2020	Change
	In NIS millions		
Loan loss expense (income) - specific	**(486)**	664	(1,150)
Loan loss expense (income) - collective	**(326)**	1,888	(2,214)
Total loan loss expense (income)	**(812)**	2,552	(3,364)
Of which:			
Loan loss expenses (income) for credit risk in respect of commercial credit risk	**(622)**	2,105	(2,727)
Loan loss expenses (income) for credit risk in respect of housing loans	**(145)**	175	(320)
Loan loss expenses (income) for other credit risk in respect of for private individuals	**(45)**	271	(316)
Loan loss expenses (income) for credit risk in respect of banks and governments	**-**	1	(1)
Total loan loss expense (income)	**(812)**	2,552	(3,364)
Ratios (in %):			
Percentage of specific expense (income) for loan losses out of average outstanding loans to the public	**(0.15)**	0.23	
Percentage of expense (income) for loan losses out of the average outstanding balance of loans to the public	**(0.25)**	0.88	
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**0.03**	(0.18)	
Percentage of net write-offs for loans to the public out of the outstanding loan loss provisions for loans to the public	**1.99**	(10.00)	

For more information regarding loan loss expenses, please see “Disclosure, Measurement, Classification and Loan Loss Provision Rules” under “Credit Risks”, Note 13 and Note 30.

Noninterest income

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Noninterest finance income	**1,714**	1,026	688	67.1
Fees and commissions	**3,506**	3,281	225	6.9
Other income	**291**	59	232	+
Total	**5,511**	4,366	1,145	26.2

Breakdown of noninterest finance income

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Net income (expenses) in respect of derivatives and net exchange rate differentials for not held-for-trading[a]	**310**	(1)	311	+
Gains on sale of available-for-sale bonds, net	**231**	377	(146)	(38.7)
Realized and unrealized gains, net and dividend from not held-for-trading equity securities[a]	**842**	227	615	+
Net gains (losses) on sale of investees' shares	**-**	(2)	2	100.0
Net income for derivatives for trading activities	**349**	367	(18)	(4.9)
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and equity securities, net and dividend[a]	**(18)**	58	(76)	-
Total	**1,714**	1,026	688	67.1

(a) Including the effect of exchange rate differentials.

Net income in respect of derivatives and exchange rate differentials in 2021 were mainly affected by the increase in the risk-free interest rate in respect of derivatives for not held-for-trading activities, while in 2020 they were affected by the risk-free interest decrease.
Gains on the equity securities not held for trading in 2021 include realized and unrealized gains on Retailors and ironSource shares in the amount of NIS 518 million (before tax effect) and in 2020 - including a gain on the sale of Visa shares in the amount of NIS 86 million (before tax effect).

Breakdown of fees and commissions

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Account management	**649**	642	7	1.1
Activity in securities and certain derivatives	**784**	727	57	7.8
Credit cards	**365**	327	38	11.6
Credit handling	**203**	173	30	17.3
Financial product distribution fees and commissions[a]	**281**	268	13	4.9
Exchange rate differentials	**402**	392	10	2.6
Financing fees and commissions	**495**	442	53	12.0
Other fees and commissions	**327**	310	17	5.5
Total fees and commissions	**3,506**	3,281	225	6.9

(a) Including management fees and commissions on life and home insurance.

The 6.9 percent increase in fees and commissions in 2021 over 2020 stems from fees and commissions from securities, credit handling fees, credit card fees and fees and commissions from financing activities, mostly on the back of an increase in the scope of activity.

Breakdown of other income

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Gains on severance pay reserve	**83**	9	74	+
Other income, including on sale of buildings and equipment	**208**	50	158	+
Total	**291**	59	232	+

Operating and Other Expenses

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Salaries and related expenses	**4,242**	3,742	500	13.4
Depreciation and amortization	**694**	678	16	2.4
Maintenance expenses for buildings and equipment	**841**	924	(83)	(9.0)
Other expenses	**1,651**	1,702	(51)	(3.0)
Total operating and other expenses	**7,428**	7,046	382	5.4

The efficiency ratio for 2021 improved and was 46.8 percent, compared with 53.8 percent in 2020. The material improvement in the efficiency ratio arises from a material increase of 21.1 percent in income, compared to a more moderate increase in expenses, of 5.4 percent, on the back of provisions for bonuses, as stated below. The decrease in other expenses is the result of a series of measures taken by the Bank in order to adjust the expenses to the business focal points.

The operating and other expenses to total asset ratio is 1.13 percent, compared to 1.27 percent in 2020.

Salary Expenses

	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Salaries and related expenses	**3,871**	3,374	497	14.7
Pension, severance and retirement expenses	**371**	368	3	0.8
Total salary expenses	**4,242**	3,742	500	13.4

Salaries and related expenses constitute 57.1 percent of total operating expenses in 2021, compared with 53.1 percent in 2020.

Salary expenses were up in 2021 compared to 2020, especially due to provisions for bonuses, taking into account the financial results.

Expenses and Investments Relating to the IT Function

Set forth below is a breakdown of expenses and investments relating to the IT function

	For the year ended December 31 2021			
	Software	Hardware[(a)]	Other	Total
	In NIS million			
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	398	93	-	491
Expenses for acquisition or usage licenses not capitalized to assets	115	49	-	164
Outsourcing expenses	48	-	3	51
Depreciation expenses	523	78	8	609
Other expenses	35	11	28	74
Total expenses	1,119	231	39	1,389
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	274	-	-	274
Outsourcing costs	119	-	-	119
Costs of acquisition or usage licenses[(b)(c)]	94	57	-	151
Costs of equipment, buildings and land	-	-	13	13
Total costs	487	57	13	557
Balances of assets for the IT function				
Total amortized cost	809	149	383	1,341

	For the year ended December 31 2020			
	Software	Hardware[(a)]	Other	Total
	In NIS million			
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	384	86	-	470
Expenses for acquisition or usage licenses not capitalized to assets	145	49	-	194
Outsourcing expenses	60	-	3	63
Depreciation expenses	497	84	9	590
Other expenses	37	24	27	88
Total expenses	1,123	243	39	1,405
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	246	-	-	246
Outsourcing costs	102	-	-	102
Costs of acquisition or usage licenses[(b)(c)]	145	60	-	205
Costs of equipment, buildings and land	-	-	18	18
Total costs	493	60	18	571
Balances of assets for the IT function				
Total amortized cost	908	183	339	1,430

(a) Including communications infrastructures.

(b) Costs of acquisition or usage licenses for the IT function, which were not classified as property, plant and equipment (costs of equipment, buildings and land) in the financial statements, but rather as a prepaid expense.

(c) Including purchases of software and hardware and licenses to use them for all banking corporation's divisions.

Following is a summary of the comprehensive income statement

Comprehensive income in 2021 totaled NIS 5,943 million compared to NIS 2,805 million in 2020.

The difference between the comprehensive income and net income in 2021 stems primarily from positive adjustments of liabilities in respect of employee benefits totaling NIS 392 million, which stemmed primarily from inflationary effects, high returns on the plan assets and decrease of the capital reserve, which were partially offset by the discount rate, as well as from negative adjustments in respect of available-for-sale bonds totaling NIS 438 million, which arose mainly from the increase in the interest rate (in 2020 - they were affected by the decrease in interest rates).

It should be noted that subsequent to the balance sheet date, there were substantial declines in the markets, on the back of the increase in interest rate and the military conflict between Ukraine and Russia. At the same time, the interest rate increase led to a decline in the pension liabilities.

These adjustments were stated directly in other comprehensive income and in later periods - in profit and loss.

For the year ended December 31

	2021	2020
	In NIS millions	
Net income attributable to the Bank's shareholders	**6,028**	2,102
Changes in other comprehensive income (loss) attributable to the Bank's shareholders:		
Adjustments in respect of presentation of available-for-sale bonds at fair value, net	**(438)**	814
Adjustments of liabilities for employee benefits	**392**	336
Other adjustments[a]	**(75)**	(8)
Related tax effect	**4**	(460)
Less other comprehensive loss attributable to non-controlling interests	**(32)**	(21)
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**(85)**	703
Comprehensive income attributable to the Bank's shareholders	**5,943**	**2,805**

(a) For the composition of the other adjustments, please see Note 10.

Structure and Development of Assets and Liabilities, Equity and Capital Adequacy

The total assets of the Leumi Group as at December 31 2021 amounted to NIS 656.5 billion, compared to NIS 556.0 billion at the end of 2020, a 18.1 percent increase; as at December 31 2021, the Bank's total assets amounted to NIS 631.0 billion compared with NIS 532.8 billion at the end of 2020, a 18.4 percent increase.

The main increase in assets was in cash and deposits with banks, which were up by 44.9 percent, and in loans to the public, net, which were up by 16.1 percent. These increases were funded mainly by an increase in deposits by the public, which were up by 20.2 percent compared to the previous year.

These increases, alongside the decrease in Federal Reserve interest rate and Bank of Israel's interest rate and CPI differences compared to the previous year, contributed to a significant rise in net interest income during the period.

The value of assets denominated in, and linked to, foreign currency out of the Group's total assets is approximately NIS 128.7 billion, 19.6 percent of total assets. In 2021, the shekel appreciated against the US dollar by 3.3 percent, appreciated against the euro by 10.8 percent, and appreciated against the pound sterling by 4.3 percent. The change in the shekel's exchange rate against all foreign currencies contributed to a 0.7 percent decrease in the Group's total assets.

Total assets under the Group's management – total balance sheet and securities portfolios of customers, provident funds and study funds for which operational management and deposit management services are provided - reached NIS 2,144 billion, compared with a total of NIS 1,734 billion as at the end of 2020, a 23.6 percent increase.

1. Following are the changes in the main on-balance sheet items

	Consolidated			
	December 31			
	2021	2020	Change	
	In NIS millions			In %
Total assets	**656,454**	556,035	100,419	18.1
Cash and deposits with banks	**197,402**	136,194	61,208	44.9
Securities	**86,927**	92,297	(5,370)	(5.8)
Loans to the public, net	**342,879**	295,341	47,538	16.1
Buildings and equipment	**2,720**	2,932	(212)	(7.2)
Deposits by the public	**537,269**	447,031	90,238	20.2
Deposits by banks	**25,370**	15,143	10,227	67.5
Bonds, promissory notes and subordinated bonds	**15,428**	16,303	(875)	(5.4)
The Bank's shareholders' equity	**41,610**	37,664	3,946	10.5

2. Changes in the main off-balance-sheet items

	Consolidated			
	December 31			
	2021	2020	Change	
	In NIS millions			In %
Documentary credit, net	**1,637**	1,067	570	53.4
Guarantees and other commitments, net	**52,935**	42,308	10,627	25.1
Unutilized credit card credit facilities, net[a]	**7,994**	15,655	(7,661)	(48.9)
Unutilized current loan account facilities and other credit facilities in demand accounts, net	**16,528**	15,896	632	4.0
Irrevocable loan commitments approved but not yet granted and commitments to issue guarantees, net	**70,136**	60,084	10,052	16.7
Derivative instruments[b]	**892,563**	698,304	194,259	27.8
Options - all types[c]	**110,897**	92,392	18,505	20.0
Customers' off-balance-sheet monetary assets	**1,487,519**	1,177,655	309,864	26.3

(a) Including forward transactions, financial swap contracts, swaps, futures and credit derivatives. For more information, see Note 28A and 28B.

(b) For more information, please see Note 28B.

The decrease in unused credit limits of credit cards stems primarily from measures taken by the Bank to reduce unutilized credit facilities in accordance with the Ordinance for Increasing Competition and Reducing Concentration in the Banking Industry in Israel for Minimizing Market Centralization and Promoting Economic Competition (Legal Amendments) - Change of Rate and Amounts of Credit Facilities in accordance with Section 9(c) to the Law (Temporary Order), 2020 (hereinafter - the "Ordinance"), pursuant to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 (hereinafter: the "Law"). The measure to reduce unutilized credit card facilities under the Ordinance and Law applies to all Bank customers rather than only to private individuals.

Following on the banking system Legislation and Regulation chapter in the Corporate Governance Report as of December 31 2021 and December 31 2020, it should be noted that the Bank took measures to reduce the credit facilities based, inter alia, on professional opinions, and took several actions aimed at supporting and addressing the reduction measures, including: providing adequate training to Bank branches, monitoring credit facility utilization rates, etc. The Bank took two additional reduction measures in December 2021 and January 2022.

Loans to the Public, Net

Gross loans to the public grew 15.6 percent in 2021. Net loans to the public in the Leumi Group as at the end of 2021 totaled NIS 342.9 billion versus NIS 295.3 billion as at the end of 2020, a 16.1 percent increase. Net of the effect of the change in the shekel's exchange rate against all foreign currencies, loans to the public, net as at December 31 2021 increased by 16.6 percent over 2020.

Total loans to the public, net constitute 52.2 percent of total assets, compared with 53.1 percent at the end of 2020.

In addition to loans to the public, the Group invests in corporate securities, which total NIS 19,688 million as at the end of 2021 compared to NIS 19,048 million as at the end of 2020, and which also embody credit risks.

Net non-linked shekel loans to the public constitute as at December 31 2021 approx. 72.3 percent of total loans compared with 71.5 percent as at the end of 2020. Linked loans constitute, as at December 31 2021, 14.0 percent of total loans, compared with 14.6 percent as at the end of 2020.

For more information regarding the impact of the coronavirus crisis, please see the section entitled "Credit Risks".

Development in loans to the public, after loan loss provision by main economic sectors

	December 31			
	2021	2020	Change	
	In NIS millions			In %
Private individuals - housing loans	**103,199**	89,753	13,446	15.0
Private individuals - other	**27,284**	25,412	1,872	7.4
Construction and real estate	**89,386**	69,542	19,844	28.5
Commercial	**28,012**	27,048	964	3.6
Industry	**21,657**	19,991	1,666	8.3
Other	**73,341**	63,595	9,746	15.3
Total	**342,879**	295,341	47,538	16.1

For more information regarding changes in loans and credit risk by economic sector, please see "Credit Risks".

Troubled Credit Risk

Following is the troubled credit risk after specific and collective provisions

	December 31					
	2021			2020		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
	In NIS millions					
Impaired credit risk, net	**2,007**	**119**	**2,126**	2,889	153	3,042
Substandard credit risk, net	**741**	**11**	**752**	339	25	364
Special mention credit risk, net	**2,077**	**646**	**2,723**	3,299	309	3,608
Total	**4,825**	**776**	**5,601**	6,527	487	7,014

Following is the troubled credit risk after specific and collective provisions (cont.)

	December 31	
	2021	2020
	In NIS millions	
Troubled credit risk - Commercial	**6,054**	7,807
Troubled credit risk - retail	**1,283**	1,427
Total	**7,337**	9,234
Balance of loan loss provision	**1,736**	2,220
Troubled credit risk after loan loss provision	**5,601**	7,014

For more information regarding troubled loans, please see section entitled "Credit Risk" and Note 30.

Securities

Policy for management of investments in securities (own portfolio)

The Group's policy for management of investment in securities (own portfolio) is set out in the Group's annual and multi-year work plan. The policy defines the approved risk appetite for achieving the Group's business targets. The risk appetite includes principles and quantitative limits for the losses which the Group is willing to absorb under scenarios representing different risk levels. The main limits pertain to investment amounts, risk levels (credit rating, average life of the interest, etc.), exposure to the issuing entity, exposure to investment manager/fund manager, geographical exposure, etc. All investments are made using a list of approved investment instruments.

Management of the Group's own portfolios is carried at the Bank and Group level, since the Bank's own (nostro) portfolios play a crucial role in the management of liquidity and market risks.

Therefore, the Group prefers investments with a partial/low correlation with other activities of the Bank and the Group. Accordingly, the Group takes into account the inherent advantage of its own investments in foreign securities, which contribute to diversifying the risks arising from investment outside Israel.

Risk diversification in the Group's own portfolios is multi-dimensional: By geographic regions, economic sectors, issuing entities, investment managers, investment instruments, etc.

Investments are carried out with a view to obtain on risk-adjusted profitability taking into account the adequate capital requirements.

Avoiding tail risks (leading to significant losses) plays a significant role in the Group's investment management decisions.

The Bank's own activity focuses mainly on key markets, which operate in a developed and effective regulatory environment.

The decision to approve the Bank's use of an investment instrument takes into account various aspects, such as transparency and accessibility to an independent and reliable source for revaluation/pricing of instruments and minimizing the complexity and the operating and legal risks.

As at December 31 2021, the Group's investments in securities amounted to NIS 86.9 billion, compared to NIS 92.3 billion as at the end of 2020, a 5.8 percent decrease.

It should be noted that subsequent to the balance sheet date, the markets suffered significant declines, due to, inter alia the interest rate increase and the military conflict between Russia and Ukraine.

The Group's securities are divided into four classes: held-for-trading securities, not held-for-trading equity securities and mutual funds, available-for-sale bonds and held-to-maturity bonds.

Securities purchased by the Bank are classified, on the date of their purchase, to one of the following portfolios: held-for-trading equity securities, available-for-sale bonds, not held-for-trading equity securities and mutual funds, or held-to-maturity bonds - according to the manner in which the Bank intends to use the securities. Securities purchased for trading purposes (or for the purpose of hedging other components of the held-for-trading portfolio), for market-making purposes or as part of the trading room activity are classified to the held-for-trading portfolio. Securities purchased as part of managing the Bank's assets and liabilities are classified to the available-for-sale portfolio or as not held-for-trading equity securities. Bonds purchased to be held to maturity are classified to the held-to-maturity portfolio.

Held-for-trading securities are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is recorded in the income statement. Available-for-sale bonds are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is stated under a separate item entitled "Adjustments in respect of presentation of available-for-sale bonds at fair value" less related tax, in other comprehensive income. In case of an other-than-temporary impairment, the difference is charged to profit and loss. Held-to-maturity bonds are stated in the balance sheet at amortized cost. Not held-for-trading equity securities and mutual finds for which there is no available fair value are presented in the balance sheet at cost, less impairment plus or net of changes in observable prices in regular transactions in similar or identical investments of the same issuer. Unrealized gains or losses from adjustments to changes in observable prices as aforesaid are charged to the income statements.

Fair value calculation method

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. Equity securities and mutual funds for which no fair value is available are presented at cost less impairment, adjusted upwards or downwards for observable prices in similar transactions or identical transactions of the same issuer.

Non-marketable Israeli bonds denominated in NIS are revalued using a fair value model, since these bonds do not have an active market.

Following is the classification of the securities item in the consolidated balance sheet

	December 31									
	2021					2020				
	Held-to-maturity bonds	Available for-sale bonds[a]	Not held-for-trading equity securities and mutual funds	Held-for-trading securities[b]	Total	Held-to-maturity bonds	Available-for-sale bonds[a]	Not held-for-trading equity securities and mutual funds	Held-for-trading securities[b]	Total
	In NIS millions									
Bonds										
Of the Israeli Government	4,023	23,666		2,591	30,280	3,919	34,821		3,144	41,884
Of foreign governments[c]	-	26,512		-	26,512	-	19,893		223	20,116
Of Israeli financial institutions	-	54		288	342	-	69		323	392
Of foreign financial institutions[d]	-	8,302		27	8,329	-	8,861		98	8,959
Asset-backed (ABS) or mortgage-backed (MBS)	2,315	7,175		42	9,532	2,265	6,996		80	9,341
Of other Israeli entities	-	585		106	691	-	220		58	278
Of other foreign entities	1,693	5,136		53	6,882	818	6,067		46	6,931
Equity securities and mutual funds			4,344	15	4,359			4,335	61	4,396
Total securities	**8,031**	**71,430**	**4,344**	**3,122**	**86,927**	7,002	76,927	4,335	4,033	92,297

(a) Including unrealized gains, net from fair value adjustments in the amount of NIS 1.34 billion recorded in other comprehensive income (December 31 2020 - net gains of NIS 2.06 billion).

(b) Including unrealized gains, net from fair value adjustments in the amount of NIS 8 million recorded in profit and loss (December 31 2020 - net gains of NIS 52 million).
(c) Of which: The US government - NIS 19.7 billion (December 31 2020 – NIS 11.5 billion).
(d) Most bonds of foreign financial institutions are SSA-rated (Super-nationals, Sovereign and Agencies) or state-backed.

As at December 31 2021, approx. 82.2 percent of the Group's own (nostro) portfolio was classified as available-for-sale, approx. 3.6 percent as held-for-trading, approx. 5.0 percent - as not held-for-trading equity securities and mutual funds and 9.2 percent as held-to-maturity. Approximately 5.0 percent of the securities' value is investments in mutual funds and corporate shares that are not equity-accounted, but rather stated at cost or according to the share/fund market price.

For more information regarding the value of securities by type of measurement, please see Note 33A.

Available-for-sale portfolio

1. In 2021, there was a NIS 0.4 billion decrease (before tax) in other comprehensive income in respect of available-for-sale bonds (before tax), compared with an increase of NIS 0.8 billion (before tax) in 2020.

2. In 2021, a net gain on sale of available-for-sale bonds totaling NIS 0.2 billion (before tax) net was carried to profit and loss, compared with net gains totaling NIS 0.4 billion (before tax) in 2020.

The net accumulated balance of fair value adjustments of available-for-sale bonds portfolio as at December 31 2021 totaled a positive NIS 0.9 billion (after tax) compared with a positive NIS 1.2 billion as at the end of 2020. These amounts represent net unrealized gains (after tax) as at the reporting dates.

On March 1 2021, a balance of approximately NIS 750 million (USD 225 million) of the available-for-sale bonds portfolio was classified to the held-to-maturity bond portfolio by the US-based subsidiary.

For information regarding fair value adjustments of available-for-sale securities recognized in equity, please see Note 12.

Investments in equity securities and mutual funds

As at December 31 2021, investments in equity securities and mutual funds totaled NIS 4.4 billion, of which NIS 2.6 billion in marketable and NIS 1.8 billion - non-marketable. As at January 2019, changes in the fair value of unrealized not held-for-trading equity securities and mutual funds will be recognized directly, on a regular basis, in the income statement rather than in Other comprehensive income. The entire investment of NIS 4.3 billion is classified to the not held-for-trading equity securities and funds portfolio.

As at December 31 2021, the capital required in respect of these investments is NIS 0.4 billion.

For more information, please see Note 12.

Held-for-trading portfolio

As at December 31 2021, the held-for-trading portfolio has NIS 3.1 billion in bonds, compared with NIS 4.0 billion as at December 31 2020. As at December 31 2021, the held-for-trading portfolio constitutes 3.6 percent of the Group's total nostro (own) portfolio, compared with 4.4 percent as at December 31 2020.
In respect of held-for-trading bonds, realized and unrealized losses totaling NIS 18 million were recorded in the income statement, compared to gains of NIS 51 million in 2020; and for equity securities and mutual funds - realized and unrealized losses totaling NIS 1 million were recorded, compared with gains of NIS 7 million in 2020.

For more information on the portfolio's composition, please see Note 12.

Investments in foreign securities

A. Investments in foreign asset-backed securities

The Group's asset-backed (mortgage and non-mortgage) securities portfolio, all investment-grade, amounted to NIS 9.5 billion (about USD 3.1 billion) as at December 31 2021, compared to NIS 9.3 billion as at the end of 2020. Out of the above portfolio, as at December 31 2021, NIS 7.2 billion (about USD 2.3 billion) was classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

As of December 31 2021, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled NIS 5.1 billion. 93.1 percent of all mortgage-backed bonds in the available-for-sale portfolio was issued by US federal agencies (FNMA, FHLMC, GNMA) and all were rated AAA as of the reporting date.

As of December 31 2021, the aggregate net impairment carried to equity from the mortgage-backed bonds portfolio totaled app. NIS 52 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total NIS 0.4 billion.

The weighted average maturity for the entire mortgage-backed bond portfolio is 4.91 years (average duration). In addition to the mortgage-backed bonds, the Group's available-for-sale portfolio also includes other non-mortgage asset-backed bonds totaling NIS 2.1 billion, of which CLO bonds account for NIS 1.8 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is 4.9 years.

For more information on investments in asset-backed bonds, please see Note 12.

B. Investments in foreign non-asset-backed securities

As of December 31 2021, the Group's securities portfolio includes NIS 51.4 billion (USD 16.5 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 44.7 billion (about USD 14.4 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios. 98.95 percent of the total securities are investment-grade and include mainly securities of the US Government, banks and financial institutions as well as bonds of investment-grade corporations, and the remainder are mainly securities issued by the Israeli Government.

For more information regarding exposure to foreign financial institutions, please see the section entitled "Credit Risks".

As of December 31 2021, the aggregate increase in the value of equity in respect of securities which are not backed by assets issued abroad within the available-for-sale portfolio amounted to NIS 0.4 billion (NIS 0.3 billion after tax).

As aforesaid, in addition to the available-for-sale portfolio, the held-for-trading portfolio and held-to-maturity portfolio also include non-asset-backed securities. The held-for-trading portfolio mainly includes securities issued by governments, banks and financial institutions. 81.33 percent of the securities in the held-for-trading portfolio are investment-grade.

As at December 31 2021, the value of the non-asset-backed held-for-trading portfolio was NIS 0.1 billion (USD 0.03 billion).

Investments in bonds issued in Israel

As at December 31 2021, investments in bonds issued in Israel amounted to NIS 24.9 billion, of which NIS 23.9 billion was in shekel-denominated bonds issued by the Israeli Government and the remainder - in corporate bonds. 61.9 percent of corporate bonds investments - which are NIS 0.5 billion - were included in the available-for-sale portfolio, and the remainder - in the held-for-trading portfolio.

The available-for-sale portfolio corporate bonds - which total NIS 0.5 billion - include a positive capital reserve of NIS 30 million.

All corporate bonds in the held-for-trading portfolio are listed and traded on the Tel Aviv Stock Exchange.

For more information regarding pledging of securities, please see Note 27.

Deposits by the public

As at the end of 2021, the public's deposits with the Group amounted to NIS 537.3 billion, compared to NIS 447.0 billion at the end of 2020, a 20.2 percent increase. Net of the effect of the change in the exchange rates, the deposits by the public as at December 31 2021 increased by 21.2 percent compared to the end of 2020.

Set forth below is the mix of deposits by the public by type and linkage segments

	December 31			
	2021	2020	Change	
	In NIS millions			In %
NIS:				
Non-linked	**360,890**	310,835	50,055	16.1
CPI-linked	**10,650**	10,925	(275)	(2.5)
Foreign currency:				
Including foreign currency-linked	**162,793**	123,595	39,198	31.7
Non-monetary	**2,936**	1,676	1,260	75.2
Total	**537,269**	447,031	90,238	20.2

Set forth below are the developments in the different classes of deposits

- Deposits by the public in non-linked shekels increased by NIS 50.1 billion, compared with December 31 2020, mainly in demand deposits.
- Deposits by the public denominated in, and linked to, foreign currency grew by NIS 39.2 billion, an 31.7 percent increase compared to December 31 2020.
- CPI-linked deposits by the public declined by NIS 0.3 billion, compared with December 31 2020.

Customers' off-balance-sheet monetary assets

Following are the changes in customers' balances of off-balance-sheet monetary assets in the Leumi Group

	December 31			
	2021	2020	Change	
	In NIS millions			In %
Securities portfolios[(a)]	**1,057,107**	843,017	214,090	25.4
Assets for which operating services are provided:[(a)(b)(c)]				
Provident and pension funds	**237,860**	178,964	58,896	32.9
Advanced study funds	**192,552**	155,674	36,878	23.7

(a) Including changes in the market value of securities and value of securities of mutual funds and provident funds in the Group's custody, for which operational management and custody services are provided.
(b) The Group does not manage mutual funds, provident funds or study funds in Israel.
(c) Assets of customers to which the Group provides operational management services, including provident fund balances of customers who receive consulting services from Leumi.

Deposits by Governments

Deposits by governments amounted to approx. NIS 300 million at the end of 2021 compared with NIS 208 million as at the end of 2020, a NIS 92 million increase compared to 2020.

This item includes deposits by foreign governments with foreign offices, amounting to approx. NIS 1 million at the end of 2021 compared to NIS 15 million at the end of 2020.

Deposits with Banks and by Banks

A. Deposits with banks (central and commercial)

	December 31			
	2021		2020	
	With central banks	With commercial banks	With central banks	With commercial banks
	In NIS millions			
NIS:				
Non-linked	**173,206**	**1,052**	122,785	1,477
Foreign currency including foreign currency-linked	**8,138**	**12,506**	1,434	7,952
Total deposits with banks	**181,344**	**13,558**	124,219	9,429

Total deposits with banks increased by 45.8 percent, mainly due to an increase in deposits by the public as well as deposits of funds by institutionals.

B. Deposits by banks (central and commercial)

	December 31			
	2021		2020	
	By central banks	By commercial banks	By central banks	By commercial banks
	In NIS millions			
NIS:				
Non-linked	**16,902**	**1,426**	8,777	1,830
Foreign currency including foreign currency-linked	**216**	**6,826**	135	4,401
Total deposits by banks	**17,118**	**8,252**	8,912	6,231

During the year, the Bank received long-term loans from the Bank of Israel, in order to increase the credit available to small- and micro-businesses.

For more information, please see Note 27.

On December 31 2021 the Group’s deposits with the Bank of Israel totaled NIS 179 billion.

The Group's level of liquidity is high and the Group has net deposits with banks amounting to NIS 169.5 billion.

Bonds, Capital Notes and Subordinated Bonds

	December 31		Change	
	2021	2020		
	In NIS millions			In %
Bonds	**8,676**	6,488	2,188	33.7
Subordinated bonds and capital notes	**6,752**	9,815	(3,063)	(31.2)
Total	**15,428**	16,303	(875)	(5.4)

Shelf prospectus and bonds issue

On May 27 2021, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority. The shelf prospectus will be in effect for a period of two years from its publication date.

On November 25 2021, the Bank issued a total of NIS 1.4 billion p.v. in bonds Series 182. The bonds are redeemable in one lump sum on November 25 2027 and bear a linked annual interest rate of 0.1 percent, are linked to the Consumer Price Index, and are payable annually on November 25 of each year from 2022 to 2027, inclusive.

On November 25 2021, the Bank issued a total of NIS 0.73 billion p.v. in Bonds (Series 183); the bonds are redeemable in one lump sum on November 25 2029, bear a linked annual interest rate of 0.1 percent, are linked to the Consumer Price Index, and are payable annually on November 25 of each year from 2022 to 2029, inclusive.

On January 13 2022, the Bank issued a total of NIS 1.2 billion p.v. in bonds by way of extending Series 179, and a total of NIS 1.8 billion p.v. in bonds by extending Series 182.

Bonds in Series 179, 182 and 183 are not recognized for regulatory capital purposes.

For more information, please see the immediate report dated November 25 2021 and immediate report dated January 13 2022.

Early redemption of subordinated capital notes

On December 30 2020, the Bank's Board of Directors decided to exercise full early redemption of Subordinated Bonds (Series 400), which were issued to the public in January 2016. Accordingly, on January 21 2021, the subordinated notes were redeemed in the amount of NIS 0.9 billion. Following the decision regarding full early redemption, which was published on December 30 2020, Subordinated Bonds Series 400 were not recognized as part of the Bank's regulatory capital as at December 31 2020.

On December 30 2020, the Bank's Board of Directors decided to also redeem, by way of full early redemption, Capital Notes Series 200 and 201, which were issued to the public in February 2010. Accordingly, on February 4 2021, Capital Notes Series 200 and 201 were redeemed for a total of NIS 2.3 billion. Capital notes were included in the Bank's regulatory capital as at December 31 2020, according to the transitional provisions of Proper Conduct of Banking Business Directive No. 299.

For more information, please see the immediate reports dated December 30 2020, the immediate report dated January 17 2021, the immediate report dated January 24 2021 and the immediate report dated February 7 2021.

Equity and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 41,610 million on December 31 2021 compared with NIS 37,664 million as at the end of 2020.

The change in the equity capital was primarily affected by the profit for 2021 and the dividend paid during the year.

This capital serves as the basis for calculating the regulatory capital which, in turn, is used to calculate the Bank's capital adequacy ratio, with the addition of capital instruments and regulatory adjustments, as set out in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 202.

The equity to asset ratio reached 6.3 percent as at December 31 2021, compared to 6.8 percent as at December 31 2020.

Capital Adequacy Structure[a]

	December 31	
	2021	2020
	In NIS millions	
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments	**43,117**	39,262
Tier 2 capital, after deductions	**10,148**	12,297
Total capital	**53,265**	51,559
Balances of risk-weighted assets		
Credit risk	**346,602**	303,356
Market Risks	**5,592**	5,313
Operational risk	**22,582**	22,182
Total balances of risk-weighted assets	**374,776**	330,851
Capital to risk-weighted assets ratio		
Ratio of CET1 capital to risk-weighted assets	**11.50%**	11.87%
Total capital to risk-weighted assets	**14.21%**	15.58%
Minimum CET1 capital ratio set by the Banking Supervision Department[b]	**9.19%**	9.23%
Minimum total capital ratio set by the Banking Supervision Department[b]	**12.50%**	12.50%

(a) For more information regarding the capital adequacy structure, please see Note 25B.

(b) As of January 1 2022, the minimum capital requirements applicable to the Bank are 10 percent for Common Equity Tier 1 capital ratio (added to this ratio is a capital requirement representing 1 percent of the housing loans, excluding loans for the purchase of residential apartments granted from March 19 2020 to September 30 2021 and excluding all-purpose housing loans granted as of March 19 2020) and 13.5 for the total capital ratio.

Common Equity Tier 1 capital was 11.50 percent as at December 31 2021, a 0.37 percent decrease compared to December 31 2020, mostly as a result of the increase in the loan portfolio, which resulted in an increase in the credit risk assets, as well as an increase in capital which arose mainly from the net income less dividend.

Regulatory capital structure

In May 2013, the Banking Supervision Department published the final directives for the implementation of Basel III in Israel, by amending Proper Conduct of Banking Business Directives Nos. 201-211 (hereinafter in this section - the "Directives"). The Directives went into effect on January 1 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

Pursuant to the Directives, the Group's capital components for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1 capital, which includes CET1 capital (CET1) and Additional Tier 1 capital.

2. Tier 2 capital.

The sum of these tiers is also known as “capital basis for capital adequacy purposes" or "regulatory capital" or “total capital."

CET1 capital

Common Equity Tier 1 capital includes the banking corporation’s shareholders' equity, with the addition of some of the minority interests (non-controlling interests of consolidated subsidiaries) less goodwill, other intangible assets and regulatory adjustments as well as additional deductions.

Additional adjustments to CET1 capital arising from the implementation of operational efficiency plans and the method of calculating the discount rate used to calculate the employee benefits liability, as detailed below.

A breakdown of the minimum Common Equity Tier 1 capital regulatory requirement appears in the section entitled “Capital Adequacy”.

Tier 1 capital

According to the Banking Supervision Department’s directives, Tier 1 capital will include - in addition to CET1 capital - Additional Tier 1 capital, which is comprised of equity instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202.

To date, Israel has set no regulatory requirement regarding minimum Tier 1 capital ratio, and the Leumi Group has no Additional Tier 1 capital instruments.

Tier 2 capital

Tier 2 capital mainly includes equity instruments and the outstanding balance of the collective loan loss provision, subject to the ceiling prescribed by the directives.

As at December 31 2013, equity instruments included in Tier 2 capital are subject to transitional provisions and a recognition ceiling, as prescribed by the Directives, such that the amount recognized in effect for the equity instruments is the lower of the amortized amount of the instruments and the recognition ceiling, based on the balance of the equity instruments included in Tier 2 capital as at December 31 2013, which is amortized at the beginning of each year at 10 percent until January 1 2022. The recognition ceiling for 2021 is 10 percent.

From the beginning of 2014, capital instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202 in order to be included in capital. The main criteria that the instrument must include are: (1) a mechanism for absorbing reserve losses by way of conversion to ordinary shares or amortization of the instrument when the banking corporation’s Common Equity Tier 1 capital ratio falls below 5 percent; (2) a clause determining that, on the occurrence of the defining event for non-viability (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument shall be immediately converted to ordinary shares or written off.

For more information regarding Tier 2 capital instruments redeemed in 2021, please see section entitled “Bonds, Capital Notes and Subordinated Bonds”.

For a description of the main features of issued regulatory capital instruments, please see the Bank's website at: https://english.leumi.co.il.

Capital Adequacy

Capital ratios are calculated as the ratio of capital to risk-weighted assets. The CET1 capital ratio is calculated as the ratio of CET1 capital to the risk-weighted assets, and the total capital ratio is calculated as the ratio of total capital to the risk-weighted assets.

The Bank of Israel’s capital adequacy targets

Under Proper Conduct of Banking Business Directive No. 201, Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements, a large banking corporation whose consolidated total assets total at least 24 percent of the Israeli banking system’s total on-balance-sheet assets, is required to meet a minimum CET1 capital ratio of 10 percent and a total capital ratio of at least 13.5 percent, beginning on January 1 2017. This requirement applies to Leumi.

Additionally, under Proper Conduct of Banking Business Directive No. 329, “Limitations on Issuing Housing Loans”, a banking corporation is required to increase its CET1 capital target by a rate which reflects 1 percent of outstanding housing loans. On October 6, 2021, the Banking Supervision Department published a revised FAQ - “Limitations on Issuing Housing Loans”, in which it clarified that the requirement to increase the capital target by a rate which reflects

1 percent of the outstanding housing loans amount refers to the internal CET1 target only, and applying it to the total capital target is not mandatory. Accordingly, the minimum total capital ratio required by the Banking Supervision Department was adjusted - please see Note 25B.

Circular entitled "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order)" - Proper Conduct of Banking Business Directive No. 250

On March 31 2020, the Bank of Israel published a circular entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Directive No. 250) (hereinafter: the "Temporary Provision"). According to the temporary order, a banking corporation whose consolidated total assets constitute more than 24 percent of the Israeli banking system's total assets must meet a CET1 capital to risk-weighted asset ratio of no less than 9 percent and the ratio of total capital to risk-weighted assets shall not fall below 12.5 percent (in lieu of 10 percent and 13.5 percent, respectively, prior to the circular's publication). The directive applies to Leumi.

On November 15 2020, under a temporary order, the Bank of Israel published a circular amending Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", such that a banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 5.5 percent (in lieu of 6 percent prior to the circular's publication).

On the back of the continued unfolding of the coronavirus and its ramifications on the economy worldwide and in Israel. the Banking Supervision Department decided to extend the validity of the temporary order from time to time. On December 27, 2021, the Banking Supervision Department published a circular according to which, as of January 1 2022, the temporary order will expire, except for specific provisions with a later expiry date; on January 18 2022, the Banking Supervision Department published another circular, according to which the temporary order would not be revoked, but rather revised.

According to the circulars, the validity of the easement of the capital targets will be in effect until December 31 2023, provided that the capital ratios of the banking corporation will not fall below the lower of: the capital ratios as at December 31 2021 or the minimum capital ratios applicable to the banking corporation prior to the temporary order. As of December 31, 2021, the CET1 capital ratio of Leumi is 11.50 percent and the total capital ratio is 14.21 percent; therefore, as of January 1, 2022, Leumi is subject to the minimum capital targets in effect prior to the temporary order - i.e. the CET1 capital ratio shall not fall below 10 percent, and the total capital ratio shall not fall below 13.5 percent. It was also decided that in the period until June 30 2022, a decrease of up to 0.3 percent in the capital ratios shall not be deemed as deviating from the required capital ratios, subject to strict, conservative capital planning and reporting to the Banking Supervision Department.

Regarding the leverage ratio, he easement will be in effect until December 31 2023, provided that the leverage ratio will not fall below the lower of: the leverage ratio as at June 30 2022 or the minimum leverage ratio applicable to a banking corporation prior to the temporary order. In addition, using the easement will not prevent the distribution of dividends, subject to an overall capital planning aimed at reverting to the required leverage ratio.

As part of the Temporary Order, it was decided that the additional capital requirement of 1 percent of the outstanding housing loans, stipulated in Section 14A, will not be applicable to housing loans extended during the crisis period - from March 19 2020 to September 30 2021. Proper Conduct of Banking Business Directive No. 329, Limitations on Issuing Housing Loans. In accordance with the circular published by the Banking Supervision Department on September 30 2021, as of October 1 2021, the easement remains in effect only in respect to the capital requirement for housing loans not intended for the purchase real estate properties (all-purpose loans). Accordingly, the additional capital requirement for housing loans, as at December 31 2021, is 0.19 percent in terms of CET1.

Accordingly, the minimum capital requirements applicable to the Bank as at December 31 2021 are 9.19 percent for Common Equity Tier 1 capital ratio (including capital requirement for outstanding housing loans) and 12.50 percent for total capital ratio. As of January 1 2022, the minimum capital requirements applicable to the Bank are 10 percent for Common Equity Tier 1 capital ratio (including the capital requirement for outstanding housing loans) and 13.50 percent for total capital ratio.

The Bank's capital planning and capital adequacy targets

The Leumi Group's capital planning reflects a forward-looking view of its risk appetite and profile, business strategy and the capital adequacy required as a result. The capital plan is approved by the Bank's management and Board of Directors and takes into account the Group's various P&L centers and other factors that affect the Bank's compliance with the capital requirements, such as: profit forecasts, changes in other comprehensive income, regulatory adjustments, the effect of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratios forecast is also subject to various sensitivity tests and stress scenarios.

The Group's policy, which was approved by the Board of Directors, is to maintain a capital adequacy level that is higher than the minimum threshold set by the Bank of Israel from time to time and no less than the rate of capital required to cover the risks as assessed using the ICAAP process. In addition, the Group has set capital targets in case of a stress scenario event. For more information on the ICAAP process and the use of stress tests, please see the Risk Management Report as at December 31 2021.

Under the regulatory review process, the Banking Supervision Department instructed the banks to set internal capital targets that would match each Bank's risk profile. As a result, the Bank's Board of Directors approved an increase in the Bank's internal Tier 1 capital target to 10.5 percent, as from December 31 2017.

In light of the specifications in the Banking Supervision Department's letter of March 29 2020 and the Temporary Order, and in accordance with the minimum regulatory requirements applicable to the banks in the wake of the coronavirus crisis, as outlined above, the Bank's Board of Directors decided on April 16 2020 that the internal CET1 capital ratio threshold would be 9.5 percent in lieu of 10.5 percent.

Due to the expiration of the capital target easements, the Bank's Board of Directors decided, on March 8 2022, to revise the internal CET1 capital, raising it to 10.5 percent as was prior to the coronavirus crisis.

For more information, please see the immediate report dated April 16 2020 (Ref. No. 2020-01-034294).

Dividend distribution policy

On March 6 2019, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

As part of the implementation of this policy, and until the Board of Directors' decision of April 16 2020 to put an end to the dividend distribution and to the Bank's share buyback plan in light of the coronavirus crisis, the Bank used to distribute a dividend of up to 40 percent of the quarterly net income and to regularly carry out a share buyback plan.

According to the Banking Supervision Department's guidance regarding distribution of dividends during the coronavirus crisis, the Bank distributed, in September 2021, NIS 630 million, representing 30 percent of the net income for 2020; in December 2021, the Bank distributed NIS 1,367 in dividends, representing 30 percent of the net income for the first nine months of 2021.

In the Banking Supervision Department circular dated December 27 2021, limitations on distribution of dividends were revoked and banking corporations were instructed to exercise due caution when examining their business model, as well as take into account the remaining uncertainty in the markets, due, among other things, to new virus mutations.

Accordingly, on March 8 2022, the Board of Directors approved a distribution of dividends in the amount of NIS 588 million, which constitutes 40 percent of the net income for the fourth quarter of 2021, as it did for every quarter prior to the coronavirus crisis. The dividend approved per share of NIS 1 par value amounted to 40.481 agorot. The Board of Directors designated March 29 2022 as the record date for purposes of dividend payment and April 6 2022 as the payment date.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
February 26 2020	March 23 2020	20.29	297
August 12 2021	September 2 2021	43.36	630
November 15 2021	December 12 2021	94.11	1,367

Adjustments to CET1 capital:

Measurement of the employee benefits liability

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's CET1 capital, mainly due to the fact that the liability is measured in accordance with market interest rates, and the volatility that such measurement generates in the Bank's regulatory capital.

In July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount rate is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change has been implemented as from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel extended the approval until the Annual Financial Statements as at December 31 2024 (inclusive).

The method change moderates the volatility of the Bank's regulatory capital resulting from changes in the discount rate.

For more information regarding the discounting methodology, please see “Critical Accounting Policies and Estimates”.

Relief for operational efficiency plans

In 2016 and 2017, the Banking Supervision Department published letters entitled “Operational Efficiency of the Banking System in Israel” - workforce and real estate. According to the letters, a banking corporation which meets the terms and conditions prescribed, will be granted a relief, according to which it may spread the effect of the plans, on a straight-line basis, over a period of five years. The validity of the Banking Supervision Department was extended until December 31 2021, in an effort to allow the formulation of additional efficiency plans.

In June 2016, the Bank’s Board of Directors approved an efficiency plan, for a total cost of NIS 438 million (after tax). As of December 31 2021, 100 percent of the plan’s costs are attributable to regulatory capital.

In July 2017, the Bank’s Board of Directors approved an additional efficiency plan, for a total cost of NIS 204 million (after tax). As of December 31 2021, 90 percent of the plan’s costs are attributable to regulatory capital.

As part of the understandings regarding the special collective agreement signed with the Workers’ Union in July 2019, the Bank’s Board of Directors approved a voluntary retirement plan, which amounted to NIS 167 million (after tax). As of December 31 2021, 50 percent of the plan’s costs are attributable to regulatory capital.

Regulatory and other changes in measuring the capital requirements

Developments in the guidance of the Basel Committee on Banking Supervision regarding capital adequacy measurement

In 2017, the Basel Committee on Banking Supervision completed its revision of the overall capital adequacy Basel III framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. Inter alia, changes were made in the method of calculating capital requirements according to the standardized approach to credit risk, a uniform standardized approach was prescribed with regard to operational risk, and changes were made in market risk measurement. In March 2020, the body overseeing the Basel Committee published a notice whereby the application of the various standards included in the revision will be postponed by one year and will begin on January 1 2023. The European Union is expected to postpone the application until 2025. Presently, the Bank does not know how and when these rules will be adopted by Israel’s Banking Supervision Department.

Circular amending Proper Conduct of Banking Business Directive No. 203, “The Standardized Approach - Credit Risks”

On December 26 2021, the Banking Supervision Department published a circular revision to the Proper Conduct of Banking Business Directive No. 203, “The Standardized Approach - Credit Risk”. Under the circular, the risk weight attributed to insurers, provident funds and mutual funds was made the same as the risk weight attributed to banking corporations.

Directives pertaining to the attribution of capital for derivative financial instruments

In April 2019, the Banking Supervision Department announced plans to begin implementing the Basel 2014 Guidelines "The Standardized Approach for Measuring Counterparty Credit Risk Exposures" (SA-CCR); and on December 1 2021, the Banking Supervision Department published a circular regarding application of Proper Conduct of Banking Business Directives 203A and 208A. According to the circular and another circular published on February 21 2022, the application date of Directive 203A, Handling Counterparty Credit Risk, will be July 1 2022, and the application date of Directive 208A, Value Adjustment for Credit Risk, will be January 1 2025. On February 7 2022, the Banking Supervision Department published another draft circular, which includes various clarifications (FAQ) for Directive 203A; and on March 3 2022, the Banking Supervision Department published another draft circular which includes a revision to Proper Conduct of Banking Business No. 203, "Measurement and Capital Adequacy – the Standard Approach – Credit Risk" and Proper Conduct of Banking Business No. 218, "Leverage Ratio" to Directive 203A. The Bank is examining the effects of the said directives and continues to prepare for its implementation. It is impossible to evaluate their expected effect at this point.

Circular entitled "Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses", Proper Conduct of Banking Business Directive No. 299 and circular entitled "Expected Loan Losses from Financial Instruments"

On December 2020, the Banking Supervision Department published a circular entitled "Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses". The circular established transitional provisions which will be applied to the effect of first-time adoption of the new rules regarding expected loan losses, in order to reduce the unexpected effect of the implementation of the rules on the regulatory capital.

Moreover, on February 2021, the Banking Supervision Department published a circular entitled "Expected Loan Losses from Financial Instruments", adjusting a number of Proper Conduct of Banking Business directives to the new rules regarding expected loan losses. Among other things, Proper Conduct of Banking Business Directive No. 202 was revised, entitled "Capital Measurement and Adequacy - Regulatory Capital", and banking corporations will be required, as of January 1 2022, to deduct from CET1 amounts to cover for housing loans classified over time as non-accrual. The circular states that the requirement to calculate collective provision at a minimum rate of 0.35 percent for housing loans will be cancelled, as will be the requirement to calculate a minimum provision based on the extent of arrears.

The new directives will become effective on January 1 2022. In accordance with the transitional provisions published by the Banking Supervision Department, if as a result of the first-time adoption, there will be a decrease in the CET1, it will be possible to add partially in the CET1 (i.e., to add back to CET1) the decrease in CET1 that will be recorded on first-time application date, over a period of three years (with an additional 75 percent in the first application year and a 25 percent reduction per year, until reaching 0 percent on January 1 of the fourth application year).

For the effect of the application of the new directives on the Bank's financial statements, please see Note 1.Y.

Following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:

- Change in the amount of risk-weighted assets – Leumi's risk-weighted assets – amounted to NIS 374.8 billion as at December 31 2021. Every NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio by approx. 0.03 percent and the total capital ratio by approx. 0.04 percent.
- Change in CET1 - as of December 31 2021, CET1 totals NIS 43.1 billion. A NIS 100 million decrease in CET1 capital will decrease the CET1 capital and total capital ratio by 0.02 percent.
- Change in the foreign exchange rate - a 1 percent depreciation in the shekel's exchange rate against all currencies will decrease the CET1 capital and total capital ratio by 0.02 percent.
- Liabilities for employee benefits – the actuarial liability for employees is discounted according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's bond curve and by the US AA corporate bond spread. A change of 0.1 percent across the discount rate curve, under the assumption that the curve rises and falls uniformly, signifies a cumulative effect of 0.06 percent on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, an effect of approx. 0.01 percent in the CET1 capital ratio and the total capital ratio for the current quarter.

For the Bank's assessment regarding the expected effect of the completed merger between BLC and Valley on Leumi's capital ratios, please see below under "Major Investee Companies".

The above information regarding capital adequacy and its management refers to the Bank's future activities and constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information".

Leverage Ratio

Leverage ratio is expressed as a percentage and defined as measured regulatory capital divided by the measured exposure. The regulatory capital for the purpose of leverage ratio measurement is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive No. 202, according to regulatory adjustments regarding the capital calculation. A banking corporation's exposure is the sum of on-balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and off-balance-sheet items. The leverage ratio complements the capital ratio and constitutes yet another restriction on the banking sector's leverage level.

The leverage ratio may be affected by changes in the Bank's regulatory capital. When calculating the leverage ratio, the following were taken into account, inter alia: The effect of the implementation of the efficiency plan and adjustments for the application of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, for certain actuarial liabilities.

	December 31	
	2021	2020
	In NIS millions	
Consolidated data		
Tier 1 capital	**43,117**	39,262
Total exposures	**711,125**	597,538
Leverage ratio		
Leverage Ratio	**6.06%**	6.57%
Minimum leverage ratio required by the Banking Supervision Department	**5.50%**	5.50%

For more information on capital adequacy and leverage, please see Note 25B.

For more information regarding compliance with the leverage ratio temporary order, please see Proper Conduct of Banking Business Directive No. 250 above.

The decrease in the leverage ratio stems from the substantial increase in total assets, mainly as a result of a NIS 61 billion increase in cash and deposits with banks and a NIS 48 billion increase in loans to the public, net. The decrease was partially offset by an increase in the Tier 1 capital, which was up mainly due to the increase in net income less dividend.

Operating Segments - Management Approach

An operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by the Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial information is available for operating segments.

Operating segments reporting according to Management Approach presents the Bank's results by business line, in accordance with the Bank's organizational structure.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to private customers and small businesses. The business line. comprises three departments: Retail, Small Businesses, and Private Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Mortgages - provision of loans intended to purchase a residential apartment or loans pledged by a residential apartment or other asset.
3. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
4. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
5. Real estate – providing banking and financial services to the construction and real estate sector.
6. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
7. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price for deposits raised net of interest paid to customers.
- Noninterest income (noninterest finance income, fees and commissions and other income) – are attributed to the business lines according to the customer's activity.
- Business line expenses – include the direct expenses of business lines; expenses of corporate units providing services to those business lines are also charged to the business lines.
- A material portion of the ALM revenues are charged to the business lines, according to their business activities.

The results of business lines' activities, both in terms of their balance sheets and in terms of profit and loss, are regularly reviewed by the Board of Directors and management. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

For more information on the main operating segments according to Management Approach, please see under "Main operating segments according to Management Approach" in the Corporate Governance Report.

Following is a summary of financial performance according to the Management Approach

	For the year ended December 31 2021											
	The Bank									Subsi-diaries in Israel	Foreign subsi-diaries	Total
	Private Indivi-duals	Small busi-nesses	Banking - total	Mortgages (a)	Commer-cial	Corporate	Real estate	Capital Markets	Other and adjust-ments			
	In NIS million											
Interest income, net:												
From external	1,108	1,075	2,183	3,251	1,387	1,017	1,072	357	10	106	963	10,346
Inter-segmental	776	84	860	(1,893)	(20)	(312)	(137)	1,520	(2)	-	(16)	-
Interest income, net	1,884	1,159	3,043	1,358	1,367	705	935	1,877	8	106	947	10,346
Noninterest income	1,439	460	1,899	18	468	241	326	1,009	333	969(b)	248	5,511
Total income	3,323	1,619	4,942	1,376	1,835	946	1,261	2,886	341	1,075	1,195	15,857
Loan loss expenses (income)	(33)	(263)	(296)	(137)	(119)	(240)	(39)	31	(21)	13	(4)	(812)
Total operating and other expenses	2,770	982	3,752	322	731	277	134	420	825	206	761	7,428
Profit (loss) before tax	586	900	1,486	1,191	1,223	909	1,166	2,435	(463)	856	438	9,241
Provision for tax	200	308	508	407	418	311	399	833	81	216	102	3,275
Net income (loss) attributable to the Bank's shareholders	386	592	978	784	805	598	767	1,605	(544)	738	297	6,028

Balance as at December 31 2021												
Loans to the public, net	30,335	25,745	56,080	104,525	51,408	41,417	43,665	15,749	5,532	1,006	23,497	342,879
Deposits by the public	185,452	51,329	236,781	-	86,466	33,621	13,395	142,050	3	-	24,953	537,269

(a) On January 1, 2022, the Mortgages Division was established, and was charged with all of Bank Leumi's mortgages and housing loans activity. Accordingly, the Division's activity is presented as a separate segment from the banking activity.

(b) Includes the revenues of Leumi Partners Ltd. for realized and unrealized gain totaling NIS 518 million from the shares of ironSource and Retailors.

Condensed results of operations according to Management Approach (cont.)

	For the year ended December 31 2020											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Private Individuals	Small businesses	Banking - total	Mortgage[a]	Commercial	Corporate	Real estate	Capital Markets	Other and adjustments			
	In NIS million											
Interest income, net:												
From external	1,126	1,142	2,268	2,047	1,118	880	834	510	-	128	938	8,723
Inter-segmental[a]	774	38	812	(891)	103	(205)	(111)	287	-	7	(2)	-
Interest income, net	1,900	1,180	3,080	1,156	1,221	675	723	797	-	135	936	8,723
Noninterest income	1,362	459	1,821	38	428	244	312	879	127	254	263	4,366
Total income	3,262	1,639	4,901	1,194	1,649	919	1,035	1,676	127	389	1,199	13,089
Loan loss expenses (income)	333	482	815	178	352	762	210	(18)	(33)	4	282	2,552
Total operating and other expenses	2,610	951	3,561	245	667	227	125	382	871	190	778	7,046
Profit (loss) before tax	319	206	525	771	630	(70)	700	1,312	(711)	195	139	3,491
Provision for tax (benefit)	109	70	179	264	215	(24)	239	448	(45)	41	39	1,356
Net income (loss) attributable to the Bank's shareholders	210	136	346	507	415	(46)	461	866	(666)	139	80	2,102
Balance as at December 31 2020												
Loans to the public, net	27,530	24,253	51,783	91,313	44,626	39,389	31,559	8,700	5,339	790	21,842	295,341
Deposits by the public	181,676	47,710	229,386	-	65,775	28,390	10,149	90,938	5	-	22,388	447,031

(a) As of January 1 2022, the Mortgage Division was established in order to concentrate Bank Leumi's entire mortgage and housing loans activity, Accordingly, the Division's activity is presented as a separate segment from the banking activity. To present comparable information, comparable figures were reclassified..

(b) Beginning in Q1 2021, it was decided to allocate a significant portion of the ALM activity to the various P&L centers. To present comparative information, the comparative results were reclassified.

Regulatory Operating Segments

Regulatory operating segments are reported according to the format and classifications prescribed by the Reporting to the Public Directives of the Banking Supervision Department, as follows:

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment – private individuals with a financial assets portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other monetary assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of more than NIS 10 million and less than NIS 50 million.
5. Mid-market segment – businesses whose turnover (or annual revenues) is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporations segment – businesses with a turnover (annual sales turnover or amount of annual revenues) is equal to or higher than NIS 250 million.
7. Institutional entities segment - includes institutional clients as defined by the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, including provident funds, pension funds, study funds, mutual funds, exchange-traded notes (ETNs), insurers, members of the TASE managing customers' money.
8. Financial management segment – includes the following activities:
   a. Trading activities - investment in marketable securities, market-making activity involving securities and derivatives, activity in derivatives that are not designated as hedges nor part of the banking corporation's Asset and Liability Management (ALM) activities, repurchase and lending transactions involving securities, short selling of securities, securities' underwriting services.
   b. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges or protection for exchange rate differentials of investments in foreign offices, deposits with and by governments.
   c. Non-financial investment activity – investment in equity securities not held for trading and investments in associates of businesses.
   d. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
9. Other segment – including discontinued operations, profit from reserves and other results related to employee benefits which were not attributed to other operating segments, activities that were not allocated to other segments and adjustments between all items attributed to segments and all items in the consolidated financial statements.

Customer classification

In accordance with the circular, when a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million - shall be classified to the corporations segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information and improve the data.

For more information, please see Note 29A.

Summary of activities by regulatory operating segment

	For the year ended December 31 2021										
	Activity in Israel									Foreign operations	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutionals	Financial manage-ment	Other		
	In NIS million										
Interest income, net	**1,126**	**1,371**	**40**	**1,794**	**780**	**1,610**	**54**	**2,626**	**(2)**	**947**	**10,346**
Noninterest income	**55**	**950**	**169**	**826**	**324**	**593**	**181**	**1,909**	**256**	**248**	**5,511**
Total income	**1,181**	**2,321**	**209**	**2,620**	**1,104**	**2,203**	**235**	**4,535**	**254**	**1,195**	**15,857**
Loan loss expenses (income)	**(141)**	**(44)**	**-**	**(240)**	**(143)**	**(201)**	**3**	**(42)**	**-**	**(4)**	**(812)**
Total operating and other expenses	**318**	**2,477**	**95**	**1,555**	**458**	**445**	**233**	**406**	**680**	**761**	**7,428**
Profit (loss) before tax	**1,004**	**(112)**	**114**	**1,305**	**789**	**1,959**	**(1)**	**4,171**	**(426)**	**438**	**9,241**
Provision for tax (benefit)	**351**	**(38)**	**40**	**462**	**280**	**689**	**-**	**1,495**	**(106)**	**102**	**3,275**
Net income (loss) attributable to the Bank's shareholders	**653**	**(74)**	**74**	**843**	**509**	**1,270**	**(1)**	**2,777**	**(320)**	**297**	**6,028**
Balance as at December 31 2021											
Loans to the public, gross	**103,429**	**27,884**	(א)**429**	**57,527**	**34,534**	**93,927**	**5,824**	**-**	**-**	**23,837**	**347,391**
Deposits by the public	**-**	**120,483**	**25,965**	**86,888**	**60,874**	**90,223**	**127,883**	**-**	**-**	**24,953**	**537,269**

	For the year ended December 31 2020										
	Activity in Israel									Foreign ope-rations	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-busi-nesses	Mid-sized busi-nesses	Corpo-rations	Institu-tionals	Finan-cial manage-ment	Other		
	In NIS million										
Interest income, net	995	1,499	57	1,802	724	1,441	73	1,202	(6)	936	8,723
Noninterest income	61	923	151	773	290	549	207	1,127	22	263	4,366
Total income	1,056	2,422	208	2,575	1,014	1,990	280	2,329	16	1,199	13,089
Loan loss expenses (income)	174	271	-	569	285	1,001	(1)	(29)	-	282	2,552
Total operating and other expenses	243	2,345	83	1,531	421	376	231	321	717	778	7,046
Profit (loss) before tax	639	(194)	125	475	308	613	50	2,037	(701)	139	3,491
Provision for tax (benefit)	236	(73)	47	177	117	219	19	804	(229)	39	1,356
Net income (loss) attributable to the Bank's shareholders	403	(121)	78	298	191	394	31	1,220	(472)	80	2,102

Balance as at December 31 2020											
Loans to the public, gross	90,133	26,212	(א)320	50,658	29,502	77,154	4,386	-	-	22,266	300,631
Deposits by the public	-	121,146	26,082	77,259	47,145	72,512	80,499	-	-	22,388	447,031

(a) Including outstanding housing loans as at December 31 2021 in the amount of NIS 181 million as at December 31 2020 totaling NIS 103 million.

Following are the main changes in the operating results of the regulatory segments:

Households segment

Net income attributable to shareholders in respect of the households segment in 2021 totaled NIS 579 million, compared to NIS 282 million in 2020. Most of the increase resulted from loan loss income, compared to a loan loss expense in 2020, which was partially offset by an increase in operating expenses.

Net interest income in 2021 totaled NIS 2,497 million compared to NIS 2,494 million in 2020. In 2021, there was an increase in income from housing loans, mostly as a result of an increase in activity volume, which was offset from the decrease in credit spreads to private individuals and the decrease in deposit spreads due to a decrease in the NIS and USD interest rates.

Noninterest income in 2021 totaled NIS 1,005 million compared to NIS 984 million in 2020. The increase resulted primarily from an increase in credit card revenues and from fees and commissions from financing activities, securities activity and exchange rate differentials.

Loan loss income in 2021 totaled NIS 185 million compared to loan loss expenses of NIS 445 million in 2020. Income during 2021 arises mainly from change in the collective provision, on the back of the economic expansion, the drop in morbidity and the improved macro-economic parameters.

Operating expenses in 2021 totaled NIS 2,795 million compared to NIS 2,588 million in 2020. The increase is mainly on the back of provisions for bonuses, in light of the financial results.

Outstanding loans to the public as at December 31 2021 totaled NIS 131.3 billion compared to NIS 116.3 billion as at the end of 2020. Most of the increase originates from an increase in the outstanding housing credit.

Outstanding deposits by the public as at December 31 2021 totaled NIS 120.5 billion compared to NIS 121.1 billion as at the end of 2020.

Private banking segment

The net income attributable to shareholders in respect of the private banking segment totaled NIS 74 million in 2021, compared to NIS 78 million in 2020. On the one hand, the segment interest income was affected by the decrease in the NIS and USD interest rates. On the other hand, income from fees and commissions rose, especially due to distribution of financial products and fees and commissions from securities activity.

Operating expenses in 2021 totaled NIS 95 million compared to NIS 83 million in 2020. The increase is mainly on the back of provisions for bonuses, in light of the financial results.

Micro- and small-business segment (activity in Israel)

The net income attributable to shareholders in respect of the micro- and small business segment in 2021 totaled NIS 843 million, compared to NIS 298 million in 2020. The increase stems mainly from a loan loss income compared to a loan loss expense in 2020, and from an increase in revenues from fees and commissions, which was partially offset by an increase in operating expenses.

Net interest income in 2021 totaled NIS 1,794 million compared to NIS 1,802 million in 2020. The decrease is due to a decline in credit spreads and from decrease in deposits spreads, which stem from the decline in NIS and USD interest rates, which were mostly offset by an increase in the credit volume.

Noninterest income in 2021 totaled NIS 826 million compared to NIS 773 million in 2020. The increase resulted primarily from an increase in fees and commissions for exchange rate differentials, credit card revenues and fees and commissions from securities activity.

Loan loss income in 2021 totaled NIS 240 million compared to loan loss expenses of NIS 569 million in 2020. Income during 2021 arises mainly from change in the collective provision, on the back of the economic expansion, the drop in morbidity and the improved macro-economic parameters.

Operating expenses in 2021 totaled NIS 1,555 million compared to NIS 1,531 million in 2020. The increase is mainly on the back of provisions for bonuses, in light of the financial results.

Outstanding loans to the public as at December 31 2021 totaled NIS 57.5 billion compared to NIS 50.7 billion at the end of 2020.

Balance of deposits by the public as at December 31 2021 totaled NIS 86.9 billion compared to NIS 77.3 billion at the end of 2020.

Mid-market segment (activity in Israel)

The net income attributable to shareholders in respect to the mid-market segment totaled NIS 509 million in 2021, compared to NIS 191 million in 2020. Most of the increase was due to a loan losses income compared to a loan loss expense in 2020, and to an increase in revenues from credit and fees and commissions, partially offset by the decrease in operating expenses.

Net interest income in 2021 totaled NIS 780 million compared to NIS 724 million in 2020. The increase mainly resulted from an increase in the credit activity volume, which was partially offset by deposit spreads, in light of the decline in NIS and USD interest rates.

Noninterest income in 2021 totaled NIS 324 million compared to NIS 290 million in 2020. The increase resulted mainly from an increase in fees and commissions on exchange rate differentials, credit handling fees as well as contracts and fees and commissions from financing activities.

Loan loss expenses in 2021 totaled NIS 143 million compared to NIS 285 million in 2020. Income during 2021 arises mainly from change in the collective provision, on the back of the economic expansion, the drop in morbidity and the improved macro-economic parameters.

Operating expenses in 2021 totaled NIS 458 million compared to NIS 421 million in 2020. The increase is mainly on the back of provisions for bonuses, in light of the financial results.

Outstanding loans to the public as at December 31 2021 totaled NIS 34.5 billion compared to NIS 29.5 billion as at the end of 2020.

Balance of deposits by the public as at December 31 2021 totaled NIS 60.9 billion compared to NIS 47.1 billion as at the end of 2020.

Corporations segment (activity in Israel)

Net income attributable to shareholders in respect of the corporations segment was NIS 1,270 million in 2021, compared to NIS 394 million in 2020. Most of the increase was due to a loan losses income compared to a loan loss expense in 2020, and to an increase in revenues from credit and fees and commissions, partially offset by the decrease in operating expenses.

Net interest income in 2021 totaled NIS 1,610 million compared to NIS 1,441 million in 2020. The increase resulted mostly from an increase in volume, mainly in the construction and real estate industry, partially offset by deposit spreads in light of the decline in NIS and USD interest rates.

Noninterest income in 2021 totaled NIS 583 million compared to NIS 549 million in 2020. The increase resulted mainly from an increase in fees and commissions on financing activity and handling of credit and contracts, due to higher balances.

Loan loss expenses in 2021 totaled a NIS 201 million income compared to expenses of NIS 1,001 million in 2020. Income during 2021 arises from the specific provision, particularly as a result of collections, and from the collective provision, on the back of the economic expansion, the drop in morbidity and the improved macro-economic parameters.

Operating expenses in 2021 totaled NIS 445 million compared to NIS 376 million in 2020. The increase is mainly on the back of provisions for bonuses, in light of the financial results.

Outstanding loans to the public as at December 31, 2021 totaled NIS 93.9 billion compared to NIS 77.1 billion as at the end of 2020. Most of the increase stems from the real estate and construction industry.

Balance of deposits by the public as at December 31, 2021 totaled NIS 90.2 billion compared to NIS 72.5 billion at the end of 2020.

Total commercial credit portfolio (the small and micro-businesses segment, mid-market segment and corporate segment) (activity in Israel)

Net income attributable to shareholders in respect of the commercial credit portfolio for 2021 totaled NIS 2,622 million, compared to NIS 883 million in 2020. Most of the increase arises from the loan loss income compared with the loan loss income for 2020 and the increase in credit income and in fees and commissions partially offset by a decrease in operating expenses.

Interest income. net for 2021 totaled NIS 4,184 million, compared to NIS 3,967 million. The increase stems from an increase in activity, mostly in the construction and real estate industry, which was partially offset by a decrease in the credit spreads and deposits spreads due to the decrease in the shekel and dollar interest. The credit spreads in the commercial credit portfolio declined similarly to a decrease in credit spreads in the construction and real estate industry.

Financial management segment (activity in Israel)

Net income of the financial management segment in 2021 totaled NIS 2,777 million compared to NIS 1,220 million in 2020.

Net interest income in 2021 totaled NIS 2,626 million compared to NIS 1,202 million in 2020. The increase stems mainly from the CPI increase from one period to another, from revenues from derivatives - mostly interest derivatives which are part of the Bank's ALM, as well as the change in the mix of sources due to the decrease in the NIS and USD interest rates and growth of the credit portfolio.

Other segment (activity in Israel)

The net loss attributable to shareholders in respect to the "Other" segment totaled NIS 320 million in 2021, compared to a NIS 472 million loss in 2020. Most of the decrease in loss arises from noninterest income due to revenues from sale of assets.

Information by Geographic Region[a]

Main figures by Geographic Region

	Total assets			Loans to the public, net			Deposits by the public		
	December 31			December 31			December 31		
	2021	2020	Change	**2021**	2020	Change	**2021**	2020	Change
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Israel	**623,478**	526,844	18.3	**319,381**	273,499	16.8	**512,316**	424,643	20.6
USA	**26,026**	23,484	10.8	**17,923**	17,213	4.1	**22,301**	19,514	14.3
UK	**6,928**	5,684	21.9	**5,575**	4,629	20.4	**2,652**	2,874	(7.7)
Other foreign operations	**22**	23	(4)	**-**	-	-	**-**	-	-
Total	**656,454**	556,035	18.1	**342,879**	295,341	16.1	**537,269**	447,031	20.2

Following is a breakdown of the net income by geographic region

	Net income (loss)			
	For the year ended December 31			
	2021	2020	Change	
	In NIS millions			In %
Israel	**5,853**	2,120	3,733	+
USA	**213**	121	92	76.0
UK	**(46)**	(142)	96	-
Other foreign operations	**8**	3	5	+
Total	**6,028**	2,102	3,926	186.8

(a) Classified by office's location.

For more information, please see sections "Major Investee Companies", "Credit Risk" and Note 29A.b.

Major Investees[1]

The Leumi Group operates both in Israel and overseas through subsidiaries, which are either banks or firms providing financing and financial services. In addition, the Group invests in corporations which do not engage in banking.

As of December 31 2021, the Bank's total investments in investees (including in capital notes) was NIS 13.3 billion, compared with NIS 11.6 billion as at December 31 2020. In 2021, the investees contributed NIS 991 million to the Group's net income, compared with NIS 166 million in 2020.

For information regarding the investment and contribution of each major Group company to the Group's profit, please see Note 15.

Consolidated Companies in Israel

The Bank's total investments (including in capital notes) in its Israeli consolidated subsidiaries was NIS 7,998 million as of December 31 2021, compared with NIS 7,243 million as of December 31 2020. Their contribution to the Group's net income in 2021 was NIS 738 million, compared with NIS 139 million in 2020. In 2021, the Group's return on investment in the Israeli consolidated companies was 10.1 percent compared with 2.0 percent in 2020.

Leumi Partners Ltd.

Leumi Partners is the Leumi Group's investments banking arm.

Leumi Partners ended 2021 with a NIS 742 million net income, mainly derived from investments and income from fees and commissions, compared to a gain of NIS 106 million in 2020.

Leumi Partners' equity totaled NIS 4,369 million as of December 31 2021, compared with NIS 3,634 million as at the end of 2020.

Following the increase in non-financial investments in the Leumi Group, and as part of the restructuring procedure in 2020, in March 2021, Leumi Partners issued capital notes to Leumi Financial Holdings Ltd. for a total of NIS 885 million. The capital notes do not bear interest and/or linkage, and will be repaid at the demand of Leumi Financial Holdings, but in any case, not before 5 years will have elapsed from the issuance date.

On July 19 2020, the Bank of Israel informed the Bank that regarding the group limit on non-financial investments, the Bank should follow the risk appetite to be set for that purpose, subject to assessment and challenging procedures to be executed by the lines of defense, including the Internal Audit Division and subject to meeting the regulatory non-financial investment limit, in accordance with Section 23A to the Banking Law (Licensing).

Gain on sale of Retailors' shares

On May 13 2021, Leumi Partners Ltd. exercised an option allocated to it upon its investment in Retailors Ltd. (hereinafter: "Retailors"). Leumi Partners sold its disposal shares by way of a sale offer at the same time as Retailors' IPO. During the fourth quarter of 2021, Leumi Partners sold its remaining shares in Retailors. The pre-tax gain recorded by the Bank in 2021, in respect of its investment in Retailors amounted to NIS 313 million, including a total of NIS 181 million during the fourth quarter of 2021.

For more information, please see Note 36C.

Gain on sale of ironSource shares

On June 28 2021, Leumi Partners sold 1,290,230 shares of ironSource Ltd., as part of a merger between ironSource and a SPAC, after which ironSource began trading on the NYSE. After the completion of the merger and having sold the abovementioned shares, Leumi Partners holds 0.75 percent of ironSource's shares. These shares were subject to contractual lockup provisions for a period of 6 months, which apply to ironSource's shareholders.

In December 2021, after the lockup expired, Leumi Partners sold some of its remaining ironSource shares.

The pre-tax gain recorded by the Bank in 2021, in respect of the sold shares and revaluation of the remaining shares amounted to NIS 205 million, including a loss of NIS 66 million during the fourth quarter of 2021.

For more information, please see Note 36D.

[1] For a definition of investees, please see Note 1.B.

Investment in Or Shay

On June 28 2021, Leumi Partners Ltd. entered into an agreement with Or Shay G.S. Ltd. (hereinafter - "Or Shay") and Or Shay's controlling shareholders (hereinafter - the "Controlling Shareholders") for the purchase of 20 percent of the shares of Or Shay, for NIS 40 million (by way of a private offering and purchase of shares from the Controlling Shareholders).

Upon signing the investment agreement, the Bank received, at no consideration, an option to purchase 55 percent of Or Shay's shares, exercisable after three to four and half years from the investment completion date, for a consideration to be determined according to a company valuation of NIS 429 million or NIS 525 million, according to the exercise date (hereinafter - the "First Option").

On the First Option date, the Bank shall have an additional option to purchase the remaining shares of the controlling shareholders (25 percent), exercisable at any time during the 18 months following the exercise of the First Option against a consideration derived from the company's valuation according to a formula set out in the agreement (hereinafter - the "Second Option").

If the Bank does not exercise the Second Option, the controlling shareholders shall have the option to sell the Bank all of their Or Shay shares for a consideration equal to 90 percent of the exercise consideration of the Second Option. This option shall be exercisable for 180 days once the Second Option period will have ended.

On December 2 2021, the transaction in Or Shay was completed, after all the conditions precedent were fulfilled.

For more information, please see Note 36E.

Leumi Partners focuses on four main areas of activity:

1. Managing the Leumi Group's non-banking investment portfolio
   Leumi Partners initiates, identifies and executes direct and indirect investments in companies, projects and private equity funds.

   The Leumi Group's non-banking investment policy is in line with the Group's risk appetite and the restrictions of the Banking Law (Licensing) and therefore only includes minority interests (up to 20 percent for each means of control, with no controlling interest). The Company focuses on mid-term and long-term investments, according to its policy. The non-banking investment strategy dictates a preference for private companies and high probability of disposal.

   During 2021, Leumi Partners made new investments in companies, funds, convertible loans, and mezzanine loans totaling NIS 1.4 billion. Leumi Partners' non-banking investments as of December 31 2021 is NIS 4.1 billion compared to NIS 3.1 Billion as at December 31 2020. Furthermore, as at December 31 2021, Leumi Partners has investment commitments totaling NIS 0.8 billion, out of which NIS 0.4 billion, added during 2021.

2. Underwriting, consulting and management of private and public offerings in Israel
   Leumi Partners provides a wide range of underwriting and consulting services to companies and interested parties through its subsidiary, Leumi Partners Underwriters Ltd.

   In 2021, Leumi Partners Underwriters participated in several public offerings for a total of NIS 24 billion and led 38 public offerings for a total of NIS 8 billion.

3. Consulting for and management of M&As and capital raising
   The services are provided to Israeli and foreign companies wishing to expand strategically through mergers and acquisitions or to investors or controlling shareholders wishing to sell or reduce their holdings.
   The services offered in this field include: Assistance in characterizing the client's strategic needs and objectives; characterizing the optimal investment or investor to meet them; identifying investment objectives or target investors globally; assisting in contacting the target company; assisting throughout the negotiation process; deal structuring so as to meet the client's objectives; and support in accessing financing resources for the transaction.

   Leumi Partners cooperates with investment houses and other entities in Israel and abroad.

In December 2019, Leumi Partners signed an unbinding agreement in principle with the investment banking division of the international bank Macquarie for exclusive cooperation in the domain of investment banking. The cooperation applies to offerings and mergers and acquisitions of Israeli companies and Israel-related companies in which the counterparty is not Israeli.

4. Conducting economic analyses and preparing valuations
Through its subsidiary Leumi Partners Research, the Company performs economic analyses and valuations mainly for the Leumi Group and for external economic entities.

Foreign Consolidated Companies (Offices)

The Bank's total investments (including in capital notes) in its foreign offices as at the end of 2021 was NIS 3,625 million, compared with NIS 3,543 million as at the end of 2020. In 2021, the foreign offices' contribution to the Group's shekel net income was NIS 249 million, compared with NIS 25 million in 2020.

The Bank has affiliates in the US and UK.

In May 2021, the Bank closed down its China office.

For more information regarding the affiliates' contribution to the Group's profit, please see Note 15.

Bank Leumi USA

Incorporated in 1968, Bank Leumi USA (BLUSA) has a commercial banking license from the State of New York and is a member of the Federal Deposit Insurance Corporation (FDIC).
BLUSA wholly owns LISI, a securities trading company which primarily serves BLUSA's customers.

BLUSA focuses on Commercial banking, primarily extending commercial loans to local middle-market companies and to Israeli companies active in the US, as well as to private banking services to US- and nonresidents. Most of the commercial activity is in the following areas: Real estate, high-tech, healthcare, and commercial. BLUSA has five branches located in the states of New York, California, Florida and Illinois as well as an office in Israel.

BLUSA's net income in 2021 was USD 82 million, compared with USD 49 million in 2020, a 67 percent increase.

Return on equity in 2021 was 9 percent compared with 6 percent in 2020.

BLUSA's total assets in 2021 was USD 8,308 million, compared to a total of USD 7,224 million in 2020, a 15 percent increase.

On September 23, 2021, Bank Leumi Corporation (hereinafter - "BLC"), a US-incorporated corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Bancorp (hereinafter - "Valley").

Valley is a holding company, which holds Valley National Bank (hereinafter - "Valley Bank"). Valley Bank was founded in 1927. Once the transaction will have been completed, Valley Bank is expected to be the 29th largest bank in the US traded on NASDAQ.

Following the completion of the transaction and execution of the merger procedures, BLC will be merged into Valley and BLUSA will be merged into Valley Bank (hereinafter - the "**Merger Agreement**").

The consideration of the transaction will be paid to the Bank in Valley shares (90 percent of the consideration) and the rest - in cash. Following the completion of the transaction, the Bank is expected to hold 14.2 percent of Valley's share capital and to be the largest shareholder in Valley, but not the controlling shareholder.

The sale transaction will be treated as a loss of control in BLC. As of the transaction completion date, the Bank is expected to treat its investment in Valley according to the equity method.

The expected gain for the Bank from the completion of the transaction is NIS 650-750 million, after tax. The final gain will be determined in accordance with the share price, BLC's shareholders' equity and the exchange rate immediately prior to the date of completion.

The Bank believes that the transaction will improve Leumi's capital ratios by 0.5 percent.

At the same time as signing the merger agreement, the Bank entered into a shareholders' agreement with Valley, in which the following terms and conditions, among others, were agreed upon:

- The Bank will be entitled to appoint 2 directors for Valley's board of directors (who will also serve on key committees), as well as an observer on Valley's board of directors and 2 directors to the Valley Bank's board of directors. A decrease of the holding stake by approximately 12.5 percent in Valley will reduce the entitlement of the Bank to appoint one member of the board in each of the companies; a decrease under 5 percent in the Bank's holding in Valley will void the Bank's right to appoint the aforementioned board members.
- The locked Valley shares - to be held by the Bank for a period of 4 years - will vest in equal tranches of 25 percent per year.
- Participation transactions will continue, and Leumi Group customers active in the US will continue to be served.
- Regarding matters such as compensation, appointment of directors and shareholders' proposals, the Bank will vote in shareholders' meetings of Valley according to the recommendation of Valley's board of directors.

On December 6 2021, the Bank was informed that a shareholder of Valley filed a claim against Valley, its CEO and directors, alleging that the defendants had breached their duty of trust and duty of care by approving the transaction and the value of the transaction, and is therefore demanding several remedies, such as deferring the convening of Valley's general meeting until the trial has been concluded. BLC was listed as a defendant in the legal proceeding.

In January 2022, the Valley shareholder plaintiff filed a motion with the court announcing his wish to withdraw from the claim, and the claim was thus dismissed.

As of the report publication date, all the conditions precedent included in the merger agreement and shareholders' agreement have been met. The transaction is expected to be completed on April 1 2022.

For more information, please see the immediate report dated September 23 2021 (Ref. No.: 2021-01-080569) and March 6 2022 (Ref. No. 2022-01-026329).

For more information, please see the section entitled "Main Changes in the Reporting Period".

Bank Leumi UK (BLUK)

Bank Leumi (UK) PLC Bank Leumi (UK) plc was founded in 1959 and continues the Group's activity in England which commenced in 1902. Leumi UK wholly owns Leumi ABL Ltd. ("LABL"), which is mainly engaged in accounts receivable factoring.

Bank Leumi UK is primarily engaged in commercial banking with emphasis on financing real estate and hotels. The real estate financing activities include a range of activities in the UK and Western Europe, including investments and development of residential real estate projects and funding of commercial real estate projects (elderly care homes and student dormitories). Funding is extended both to customers in and outside the UK (mainly Israeli).

Bank Leumi UK is regulated by the Prudent Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which are regulatory arms of the Bank of England.

In 2021, Bank Leumi UK continued to implement a strategic plan of focusing and expanding its activity in core domains, which is reflected in a 26 percent increase in the credit portfolio.

BLUK's net income in 2021 was GBP 17 million, compared with a net loss of GBP (4.0) million in 2020. The increase in the net income arises mainly from the said business focus and from loan loss expenses recorded in 2020 due to the coronavirus crisis.

Return on equity in 2021 was 7.1 percent compared with (2.00) percent in 2020.

BLUK's total assets in 2021 was GBP 1,657 million, compared to a total of GBP 1,306 million in 2020, a 27 percent increase.

On March 8 2022, the Bank's board of Directors approved the recommendation of BLUK's board to implement a measure which includes returning BLUK's regulatory license, such that after the measure will have been completed, BLUK will be a credit provision company. To this end, BLUK will be merged into LABL (hereinafter – the "Merged Company").

The Merged Company will provide credit primarily in the fields of real estate, hotels and ABL, to customers in the UK and Europe, including Israeli customers active in these geographies.

The implementation of the move is contingent on several conditions, including – a final decision by BLUK's board of directors and LABL's board of directors, receiving a permit from the Bank of Israel, receiving the approval of the English regulator and meeting the requirements of English law to complete the move.

The move is not expected to have a material effect on the Bank' financial results.

Risk Exposure and Management Thereof

Risk Management at Leumi

The Bank’s business activity involves management of financial and non-financial risks. The key financial risks managed by the Bank are as follows: Credit risks, which are integral to the Bank’s core business, as well as capital market and liquidity risks. In addition to financial risks, the Bank’s activity poses non-financial risks, the management of which is a necessary precondition to meeting the Group’s ongoing and long-term goals. These risks include operational risks, such as technological and cyber risks, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, environmental risk, conduct risk, and macroeconomic risk.

Leumi’s risk strategy management is to maintain the Group’s stability and support the achievement of its business objectives. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Bank’s business activity. The risk management framework includes mechanisms for identifying and estimating risks, defining the corporate structure and areas of responsibility for managing risk as well as putting in place adequate control and reporting mechanisms.

The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

Organizational Structure of Leumi Group’s Risk Management Function

Leumi’s risk management is based on three lines of defense, as required by Proper Conduct of Banking Business Directive No. 310 - “Risk Management”.

1. First line of defense – the managements of the business lines, including supportive functions and LeumiTech, bear full responsibility for managing the risks embodied in the products, operations, processes and systems under their purview, and for implementing an adequate control environment over their activities, through processes of identification, measurement, monitoring, control, mitigation and reporting.

2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility conform to the requirements of the Proper Conduct of Banking Business Directive No. 310, including: Responsibility for risk management at the Group and Bank levels; creating an up-to-date overall picture of each risk for decision-making purposes; leading the drafting of Leumi's risk policy for all major risks; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP), including its various components.

   The second line of defense involves additional functions, such as: the Bank's Chief Legal Counsel - who is responsible for the management of legal risk and the Chief Accountant - who is responsible for financial reporting and SOX.

3. The third line of defense is the Internal Audit Division, which reports directly to the Board of Directors. The Internal Audit Division is responsible for conducting an independent, objective audit and for challenging controls, processes and automated systems in the banking corporation. The audit is usually performed retrospectively on the first and second lines of defense, ensuring implementation of the legal provisions and instructions of management and the Board of Directors.

The Bank's Board of Directors is responsible, inter alia, for developing the overall risk strategy, including: The risk appetite; supervision of the Group’s risk management framework; approval of the corporate structure; approval of the risk management policy for each material risk; overseeing and challenging the risk levels to which the Group and the Bank are exposed, while ensuring compliance with the risk appetite and the provisions of the law and regulations.

The Chief Risk Officer, who is a member of the Bank's management and heads the Risk Management Division, is responsible for managing the Group's and Bank's main risks.

Reporting to the Chief Risk Officer are department managers and managers of the following risk management units (second line of defense), which report to the Risk Management Division – including credit risks, market risks, compliance risks, operational risks, and models risks.

The Bank strives to apply a risk management framework at the Group level, which includes corporate governance and control principles that are in line with the provisions of the law and local regulations at foreign offices. A chief risk officer is appointed for each Israeli and foreign subsidiary, reporting to the subsidiary's CEO and professionally (dotted line) to the Group's Chief Risk Officer.

Changes in the Risk Environment and their Effect on the Group

The coronavirus outbreak in January 2020 and the substantial uncertainty regarding its various implications still constitutes a significant global macroeconomic risk. It is difficult to assess the future economic developments, due to the substantial uncertainty regarding the duration and extent of its impact on the trajectories of all world countries. Leumi's risk profile is examined on a quarterly basis, as part of the risk exposure report reported to the Board of Directors each quarter.

The military confrontation between Russia and Ukraine, which began on February 24 2022, compounds the potential for volatility and uncertainty due to global economic processes. The confrontation may cause the rate of inflation to rise rapidly around the world and trigger price hikes in Israel as well, further exacerbating the cost of living crisis in Israel. Consumers' and businesses' trust could be indirectly harmed, not only due to higher prices, but also due to weakness in financial markets and impairment of the public's asset portfolio. The Bank is following these developments and will take any measures needed.

The risk profile is examined, inter alia, by using a methodology for classifying the severity level of exposures to the various risks. The methodology is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e. its stability, and includes "expert assessments" by relevant functions in the Bank. For changes in the severity of the risk factors, please see the risk factor severity table.

The Internal Capital Adequacy Assessment Process (ICAAP)

The Capital Adequacy Assessment Process (ICAAP) is aimed at calculating the capital required to support the various risks to which the Group is exposed - both in the ordinary course of business and under stress scenarios. According to the process, the Bank is in possession of adequate capital and liquidity to handle all of the risks identified - both in the ordinary course of business and under extreme stress scenarios.
The products of the process are summarized in the ICAAP paper submitted to the Banking Supervision Department in February 2022.

For more information regarding risk exposure and assessment, please see the Risk Management Report as at December 31 2021.

The Group's Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to Leumi's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses Leumi's risk identification, measurement, control, management and mitigation practices, which have direct impact on the Group's residual risk profile. The risk appetite boundaries are re-examined each year and approved at the Board of Directors' level as part of the ICAAP process. In February 2022, the Group's risk appetite was re-approved as part of the ICAAP paper.

The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures were set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Using Stress Testing as Part of Risk Management

Using a uniform stress test is an accepted global practice; it is required under the Basel Committee rules and contributes to understanding the risks which the banking system and a single bank are exposed to. The process strengthens the banking system's transparency, allows to examine the resilience of banking corporations under adverse market conditions and draw comparisons. The process supports methodology improvements and the understanding of the risk factors by banking corporations as well as by the Banking Supervision Department.

During the fourth quarter of 2021, the effects of the uniform stress scenario – as defined by the Bank of Israel - for 2021 were assessed - a global stress test.

The Leumi Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's environment.

The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set for the realization of the various scenarios.

For more information regarding risk exposure and assessment, please see the Risk Management Report as at December 31 2021.

Credit Risks

Credit provision is a core activity of the Bank and Group and is conducted in a decentralized manner by various business lines.

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.

Activities which embody credit risk include on-balance sheet and off-balance sheet credit risk, such as: Loans to the public; loans to banks; loans to governments; deposits with banks; investments in bonds and exposures for activity in derivatives.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, “Credit Risk Management”, Proper Conduct of Banking Business Directive 311A, “Management of Consumer Credit” and Proper Conduct of Banking Business Directive No. 314, “Sound Credit Risk Assessment and Valuation for Debts”, including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department’s directives, implementing corporate governance which includes three "lines of defense".

As part of its credit risk management, the Bank monitors the quality of its credit portfolio, including the overall adequacy of its loan loss provision to cover losses embodied in the loan portfolio; the credit portfolio concentration level and activity by main products, such as: credit granted to the construction and real estate sector; housing loans; credit granted to private individuals; housing loans and leveraged credit.

During 2021, adjustments were made to the credit risk management and risk appetite. In 2021, there were no material changes in the corporate governance structure related to credit risk.

Impact of the coronavirus crisis on credit risk

Economic activity in Israel continued to grow in the fourth quarter, on the back of the vaccination rates and the availability of medications for treating symptoms and preventing severe disease. However, the sectors most hurt by the crisis are still well behind in terms of their recovery rates compared to other economic sectors.

During 2021, there was been an improvement trend in the job market, with a decline in unemployment rates. The unemployment rate under the usual definition (“unemployed”) at the end of 2021 was higher than prior to the crisis, although the January 2022 data show a decline to pre-crisis levels.
The unemployment rate under the “broad” definition (which includes not only unemployed individuals but also employees who are temporarily absent from the work force due to the coronavirus, as well as employees who do not participate in the workforce and have been terminated as of March 2020) - which has been published by the Bureau of Statistics since the onset of the pandemic - pointed at an improvement trajectory in 2021, featuring a decline in unemployment. In January 2022, the rate was 5.6 percent, the lowest since the onset of the pandemic.

On the back of the continuing crisis, the risk of more harm inflicted on business activity due to epidemiological reasons is still in existence, due to the decline in immunological memory and onset of new variants. However, the risk is lower compared with the onset of the crisis, due to the knowledge and experience gained in adapting the economy to activity during morbidity surges and in light of the vaccination rates, medications and decline in morbidity as aforesaid.

It should be noted that most business and private customers with deferred loans have resumed their regular payments.

The Bank continues to explore ways to extend assistance to customers who encounter a temporary crisis and whom the Bank believes will overcome the crisis.

In this context, emphases in credit granting are continually being honed, and risk focal points and market developments are being monitored on a regular basis, while making preparations and adjusting the activity.

The loan loss income in 2021 was NIS 812 million, of which a total of NIS 486 million of the loan loss income was attributed to the specific provision and NIS 326 million - to the collective provision. This income was significantly affected by collections, by the decrease in morbidity, by the improved macro-economic parameters and by the economic expansion in 2021. A loan loss provision is an estimate based on significant judgment, which was exercised during the reporting period in a changing environment.

The provision process includes three main stages, which were adapted to the circumstances of the coronavirus crisis:

- Identifying and locating borrowers who exhibit adverse indicators, including borrowers who were hurt by the coronavirus crisis, or who are active in economic sectors that are more exposed to the adverse effects of the crisis. The Bank places significant emphasis on strict credit underwriting processes and the monitoring and follow-up activities in order to understand the development of the risks embodied in the credit portfolio, prepare in a timely manner and apply the necessary adjustments. At the same time, the Bank carefully evaluates the need to escalate risk ratings and classification of debts which may be adversely affected by the crisis.
- Recording loan loss expenses, which reflect the expected impaired debt at the individual level.
- Making and testing collective provisions which reflect the expected loss to the Bank on the collective level. In this context, the Bank is relying on information that is available to it, such as: volume of write-offs, risk profile of the economic sector, debt classification, risk appetite, economic conditions, etc. In this process, emphasis is placed on the change in customers' risk characteristics and those of the various economic sectors, as well as the economic assessments, in relation, among others, to the unemployment and growth rate. A worsening of any of these criteria may bring about an increase in the loan loss provision, and vice versa. During 2021, there has been an improvement trend, with a decline in unemployment rates. In December 2021, 262 thousand workers (approximately 6.0 percent of the work force) meet the broad definition of unemployment. This, versus 537 thousand workers (approximately 12.9 percent of the work force) in December 2020. The decline in the substantial unemployment rates during 2021 occurred on the back of the economy's recovery and removal of most coronavirus restrictions, a development which contributed to a significant increase in demand for employees. The Israeli economy grew by 8.1 percent in 2021. This represents fast growth, following a 2.2 percent contraction of the GDP in 2020. The significant rapid growth reflects a substantial rise in private consumption; therefore, the rapid growth coupled with the decline in unemployment rate, which reflect the adjustment of most economic sectors to a new routine during the coronavirus period, have reduced the economy's vulnerability to the scope of morbidity in relation to previous quarters.
- As part of the process of quantifying the provision, scenarios were calculated which represent circumstances that management believes are within a reasonable range, which were attributed weights for the purpose of obtaining the best estimate. It should be emphasized that due to the uncertainty, which has declined but still envelopes the current circumstances and, as a result, the lesser but still existing difficulty in identifying, recognizing and measuring loan losses - the loan loss provision estimate under the crisis is the result of assumptions and assessments which appear more encouraging at this point. At the same time, the effects of the measures and aid programs approved at the beginning of the crisis are dwindling, and the Bank does not expect they will have any significant adverse effect on credit risk, following positive indications regarding the population segments which enjoyed these aid programs - both among households and business borrowers, such as: the high rates of borrowers who resumed their regular payments following the deferment period, the low rate of borrowers in arrears out of the borrowers who resumed payments, the high rate of borrowers given state-backed loans who have begun to repay them, the low rate of borrowers in arrears out of this population, etc.

Due to the continuous nature of the crisis, the Bank continued to examine, during the fourth quarter of 2021, the key criteria for the provision-making process, and made the required revision thereto; in the process, it took into account the developments outlined above as well as the assessments whereby the risk of additional harm to the business activity as a result of the epidemiological aspect is lower the before; this is due to the high vaccination rates among Israel's population and the economy's adjustments to activity made during surges in morbidity. Additional changes in management's assessments, estimates and forecasts may significantly impact the loan loss provision.

Assessments and economic- and other forecasts regarding the duration and severity of the crisis may change and are therefore subject to uncertainty. Therefore, it is difficult to assess or predict how customers' status and behavior will change.

It is difficult to assess how potential changes in any variable may affect the loan loss provision in general, since management takes into account a wide range of factors, measures and indicators in its estimates. It is possible that changes in these variables may not occur at the same rate, or will be inconsistent in terms of their effect on the various components of the loan portfolio. Moreover, future changes in the loan loss provision estimate may stem from different and varied factors, such as changes in the outstanding loan balances, industry credit mix, borrower quality, write-offs, accounting classifications, etc.

Despite the aforesaid, in order to illustrate the sensitivity of the provision and to examine the alternative effect of other assumptions and estimates, the Bank used the various scenarios underlying the estimate and compared them to the outstanding provision that was recognized at the balance sheet date and calculated based on the allocation of weights to these scenarios. In this context, the Bank assumed that - under an optimistic scenario - the scope of customers exposed to the crisis whose financial condition will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be lower than the estimates in the underlying scenario; the scenario is based on a series of different variables as outlined above, circumstances which may be accompanied by a lower unemployment rate than the one used in the underlying assessments, as well as a higher growth rate than in the underlying assessments. On the other hand, the Bank assumed that alternatively - under a pessimistic scenario - the scope of customers exposed to the crisis whose financial position will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be higher than the estimates in the underlying scenario - based on several factors, as described above - circumstances which may be accompanied by an unemployment rate according to its broad definition, which would remain in a higher one-digit range on an annual average than that appearing in the underlying scenario, together with a growth rate that is lower than the underlying assumptions. The Bank compared the results of the two alternative scenarios described above to the outstanding loan loss provision recognized in its financial statements as at December 31 2021. Without taking into account the effects of offsetting or correlation, the effect of the aforesaid, hypothetically, may cause a decrease or increase of NIS 0.1 or 0.2 billion, respectively, in the loan loss provision, depending on the scenario assumptions.

This analysis is subjective and is not intended, nor purports, to estimate future changes in the loan loss provision, for many reasons, including:

- The effects of such changes may not be linear.
- There are interactions, which may be material, between the changes.
- The crisis has rapidly affected numerous areas, with force and patterns that are unprecedented in recent history; the uncertainty therefore overshadows any estimation process.
- Significant changes in the severity and duration of the crisis, the epidemiological situation, the appearance of new variants, the effects of government aid, developments on the health level and speed of recovery may significantly alter the provision estimates, regardless of the sensitivities outlined above.
- The existence of financial harm and the customer's ability to cope therewith depend on numerous factors, which are not clear enough at this stage, including: the speed of going "back to normal", the success of the vaccination effort over time, the ability to handle variants from a medical standpoint, the ability of businesses and households to handle and adapt - by changing activity and behavior patterns, government aid, measures taken by the Bank of Israel, etc.

The Bank believes that the current estimate is adequate as at the reporting date. Since the analysis involved significant judgment, others performing similar analyses may reach different conclusions.

It is clarified that the uncertainty regarding the trajectory of the crisis's development and its ramifications for the real economy still exist, such that the provision may change - increase or decrease - in the future, in accordance with the developments and due to the uncertainty, as described above.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under Forward-Looking Information.

Changes in debt covenants as part of coping with the coronavirus crisis

In 2021, the Bank has applied the coronavirus guidance of the Bank of Israel and adopted the unified outlines published by the Bank of Israel to date regarding changes in the loan terms, especially by way of loan deferment for private individuals and business customers.

The lion share of the outstanding amounts of loans approved for deferment as of the reporting date, and which are still under deferment but not classified as troubled, is for a period of more than six months.

The Bank is monitoring all its customers, especially those who have deferred their loan payments, in order to identify on time any credit deterioration, including potential exposure to loss. This both as part of the monitoring and identification processes of customers in the Bank's ongoing tracking lists and as part of special-purpose monitoring to identify customers with a higher potential of incurring damage as a result of the crisis.

Out of all frozen outstanding mortgages as at January 31 2022, approximately 89.3 percent have resumed regular payments.

As at January 31 2022, approx. 2.0 percent of the total outstanding mortgage loan amounts are still under deferment.

For more information and details regarding developments in the credit portfolio and the qualitative indicators characterizing the portfolio, please see below in this section as well as in the Risk Management Report as at December 31 2021.

Outstanding debts in Israel[a] the covenants of which were amended as part of dealing with the coronavirus from March 1 2020 to December 31 2021, which were not classified as restructuring of troubled debt following the deferment

				More information about outstanding loans to the public for which deferment was granted					More information about deferred debts by deferment period[b]		Debts whose deferment term has ended, as of the reporting date	
	Deferred debts as of the reporting date				Non-troubled debts				Non-troubled debts with accrued deferment			
	Outstanding loans for which payments were deferred	No. of loans[d]	Amount of payments effectively deferred	Troubled debts	Debts without credit performance rating	Outstanding performance-rated loans in arrears of 30 days or more	Non-delinquent debts with credit performance rating	Total non-troubled debts	More than 3 months to 6 months	More than 6 months	Outstanding loans to the public	Of which: in arrears of 30 days or more
	In NIS million											
Corporations	342	40	44	281	-	-	61	61	-	37	868	-
Mid-sized businesses	234	66	64	36	-	-	198	198	71	118	2,188	-
Small- and micro-businesses	330	613	59	21	5	3	301	309	31	214	6,065	47
Private individuals - excluding housing loans	48	536	13	1	3	-	44	47	2	2	1,576	26
Housing loans	2,177	4,679	256	51	1,953	-	173	2,126	70	1,953	16,306	410
Total as at December 31 2021	3,131	5,934	436	390[c]	1,961	3	777	2,741	174	2,324	27,003	483
Total as at September 30 2021	3,628	6,612	493	403	2,313	3	909	3,225	149	2,765	28,500	539
Total as at June 30 2021	4,712	8,577	562	488	3,142	3	1,079	4,224	510	3,542	29,944	457
Total as at March 31 2021	6,122	15,661	537	571	3,764	14	1,773	5,551	1,286	3,980	30,229	455
Total as at December 31 2020	13,180	63,655	1,144	446	6,300	162	6,272	12,734	4,944	6,659	24,949	224

(a) Debts which were deferred in foreign subsidiaries, were done so according to local outlines and their outstanding amount is immaterial to the consolidated financial statements.
(b) The deferment period is the cumulative period of deferments granted for a debt from the beginning of the coronavirus period and does not include deferment for which the borrower is eligible under any law.
(c) Of which: classified as non-accrual impaired debts in the amount of NIS 32 million.
(d) The number of loans is presented in units.

State-backed loans

Against the background of the coronavirus outbreak, the Bank signed agreements with the state (which were revised from time to time) for extending state-backed loans as part of the "Coronavirus Funds", the purpose of which is to aid businesses (small, mid-sized and large), which encounter cash flow difficulties as a result of the coronavirus crisis. The loan covenants were determined by the Ministry of Finance and are uniform for all types of borrowers.

In February 2021, a state-backed outline for granting new loans with an average duration of up to 10 years was approved. In May 2021, a program for extending the average duration of existing state-backed loans to a period of no more than 10 years from the original loan date, was approved, subject to certain terms and conditions.
In existing state-backed loans, the grace period is extended by an additional period of up to 12 months and a total of no more than 24 months from the original loan date, subject to certain terms and conditions. During the additional grace period on the principal, the interest will be paid by the customer.

In addition, in February 2021, the maximum loan amount is the same in the General Track and High-Risk Track. In all of the tracks, a business will be allowed to take a loan of up to 40 percent of its annual turnover, at a maximum amount of NIS 20 million.
The maximum loan amount eligibility is calculated according to the customer's reported turnover as of the 2019 or 2020 financial statements, at the customer's discretion.

Due to the continuation of the coronavirus pandemic, the State and the Bank decided to extend the activity of the coronavirus fund (General Track and High-Risk Track) for a period of two additional months only, until February 28 2022.

Obtaining guarantees from the State has helped the Bank support the needs of its customers and positively contributed to the quality of the Bank's loan portfolio.

Information regarding state-backed credit granted as part of the handling of the coronavirus crisis

	Recorded outstanding debt as at December 31	
	2021	2020
Customer classification	In NIS millions	
Small- and micro-businesses	**3,636**	3,807
Mid-sized businesses	**1,190**	1,595
Corporations	**307**	469
Total	**5,133**	5,871

Comments:
1. Customer classification is based on regulatory operating segments.
2. As of January 31 2022, the Bank extended loans to businesses totaling NIS 6.7 billion through the state-backed Business Loan Fund.
   Additionally, the Bank approved NIS 0.3 billion in loans which have yet to be withdrawn by customers.

Credit risk and non-performing assets

	December 31 2021			
	Commercial	For housing	Private individuals - other	Total
	In NIS millions			
1. Credit risk in credit performance rating:[a]				
On-balance-sheet credit risk	235,658	100,757	25,963	362,378
Off-balance-sheet credit risk	107,020	3,724	12,282	123,026
Overall credit risk in credit performance rating	342,678	104,481	38,245	485,404
Credit risk not in credit performance rating				
a. Non-troubled	2,236	2,302[d]	1,400	5,938
b. Total troubled[b]	5,174	629	638	6,441
Special mention	1,784	609	203	2,596
Substandard	832	-	64	896
Impaired	2,558	20	371	2,949
Total on-balance-sheet credit risk	7,410	2,931	2,038	12,379
Off-balance-sheet credit risk	1,221	-	211	1,432
Credit risk abet credit performance rating	8,631	2,931	2,249	13,811
Of which: Unimpaired debts in arrears of 90 days or more[c]	284	609	48	941
Overall credit risk incl. of the public	351,309	107,412	40,494	499,215
More information on non-performing assets				
a. Non-accrual impaired debts	2,368	20	205	2,593
b. Assets received for settled loans	9	-	-	9
Total non-performing assets of the public	2,377	20	205	2,602
Percentage of non-accrual non-performing loans to the public (NPL) out of total loans to the public				0.75%

(a) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(b) Credit risk that is impaired, substandard or special mention.
(c) Including for housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(d) Following the coronavirus crisis, the Bank expanded the definition of non-performance credit risk for housing loans, such that it also include customers that were given deferment for more than six months and are still in the deferment period. The decrease in 2021 stems mostly from loans, the deferment period of which was concluded.

Credit risk and non-performing assets (cont.)

	December 31 2020			
	Commercial	For housing	Private individuals - other	Total
	In NIS millions			
1. Credit risk in credit performance rating:[(a)]				
On-balance-sheet credit risk	198,744	83,930	24,028	306,702
Off-balance-sheet credit risk	88,669	3,226	17,129	109,024
Overall credit risk in credit performance rating	287,413	87,156	41,157	415,726
Credit risk not in credit performance rating				
a. Non-troubled	3,358	5,687[(d)]	1,519	10,564
b. Total troubled[(b)]	7,213	772	641	8,626
Special mention	3,177	722	250	4,149
Substandard	404	-	54	458
Impaired	3,632	50	337	4,019
Total on-balance-sheet credit risk	10,571	6,459	2,160	19,190
Off-balance-sheet credit risk	873	-	212	1,085
Credit risk abet credit performance rating	11,444	6,459	2,372	20,275
Of which: Unimpaired debts in arrears of 90 days or more [(c)]	56	720	38	814
Overall credit risk incl. of the public	298,857	93,615	43,529	436,001
More information on non-performing assets				
a. Non-accrual impaired debts	3,212	50	207	3,469
b. Assets received for settled loans	12	-	-	12
Total non-performing assets of the public	3,224	50	207	3,481
Percentage of non-accrual non-performing loans to the public (NPL) out of total loans to the public				1.15%

(a) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(b) Credit risk that is impaired, substandard or special mention.
(c) Including for housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(d) Following the coronavirus crisis, the Bank expanded the definition of non-performance credit risk for housing loans, such that it also include customers that were given deferment for more than six months and are still in the deferment period.

Change in Outstanding impaired Loans

Change in balance of impaired debts for loans to the public

	December 31							
	2021				2020			
	Com-mercial	For housing	Private indivi-duals - other	Total	Com-mercial	For housing	Private indivi-duals - other	Total
	In NIS millions							
Outstanding impaired debts as at the beginning of the year[e]	3,632	50	337	4,019	2,220	-	311	2,531
Loans classified as impaired debts during the year	623	16	267	906	2,790	50	234	3,074
Debts once again classified as unimpaired	(102)	(25)	-	(127)	(8)	-	-	(8)
Written off impaired debts	(348)	(1)	(66)	(415)	(464)	-	(55)	(519)
Repaid impaired debts	(1,233)[a]	(19)	(167)	(1,419)	(877)	-	(153)	(1,030)
Adjustments from translation of financial statements	(14)	(1)	-	(15)	(29)	-	-	(29)
Outstanding impaired debts as at the end of the year	2,558	20	371	2,949	3,632	50	337	4,019

(a) Of which: collections totaling NIS 149 million for impaired debts sold during the period.

Of which: change in troubled debts under restructuring

	December 31							
	2021				2020			
	Com-mercial	For housing	Private indivi-duals - other	Total	Com-mercial	For housing	Private indivi-duals - other	Total
	In NIS millions							
Balance of troubled debts under restructuring as at the beginning of the year	2,324	-	317	2,641	729	-	290	1,019
Restructurings carried out during the year	614	-	240	854	2,179	-	214	2,393
Debts reclassified as unimpaired following subsequent restructuring	(84)	-	-	(84)	-	-	-	-
Written off restructured debts	(94)	-	(46)	(140)	(87)	-	(48)	(135)
Repaid restructured debts	(831)[a]	-	(160)	(991)	(489)	-	(139)	(628)
Adjustments from translation of financial statements	(11)	-	-	(11)	(8)	-	-	(8)
Balance of troubled debts under restructuring as at the end of the year	1,918	-	351	2,269	2,324	-	317	2,641

(a) Of which: collections totaling NIS 88 million for restructured debts sold during the period.

Disclosure, Valuation, Classification and Rules for Loan Loss Provision

For loan loss expenses and classification of troubled debts, the Bank is following the Banking Supervision Department's directives, which became effective on January 1 2011 and the revised directives published subsequent to that date. The Bank estimates, assesses and revises the loan loss provision on a regular basis, based on past experience, analysis of individual borrowers, as well as according to economic forecasts and assessments of the various markets and business sectors.

Change in the on-balance-sheet outstanding loan loss provision in the balance sheet for impaired debts

	December 31							
	2021				2020			
	Com-mercial	For housing	Private individuals - other	Total	Com-mercial	For housing	Private individuals - other	Total
	In NIS millions							
Balance of loan loss provision for impaired debts as at the beginning of the year	**911**	**7**	**212**	**1,130**	372	-	167	539
Loan loss expenses (income)	**(380)**	**(4)**	**(74)**	**(458)**	696	7	(30)	673
Accounting write-offs	**(348)**	**(1)**	**(66)**	**(415)**	(464)	-	(55)	(519)
Collection of debts written off in previous years	**523**	**3**	**162**	**688**	314	-	130	444
Adjustments from translation of financial statements	**(3)**	**-**	**-**	**(3)**	(7)	-	-	(7)
Balance of loan loss provision for impaired debts as at the end of the year	**703**	**5**	**234**	**942**	911	7	212	1,130

For more information regarding the manner in which the rates of the collective provision for the coronavirus crisis were calculated, please see the section entitled "Critical Accounting Policies" and regarding the manner in which the rates of the collective provision for the coronavirus crisis were calculated, please see the section entitled "Effect of the Coronavirus Crisis" under "Credit Risks".
For more information regarding provisions, please see Note 13.

Breakdown of credit risk indicators

	December 31	
	2021	2020
	In %	
Percentage of impaired loans to the public out of outstanding loans to the public	**0.85**	1.34
Percentage of unimpaired loans to the public in arrears of 90 days or more out of outstanding loans to the public	**0.27**	0.27
Percentage of troubled credit risk to the public out of the overall credit risk for the public	**1.47**	2.12
Percentage of expenses (income) in respect of loan losses out of the average outstanding balance of loans to the public	**(0.25)**	0.88
Percentage of net write-offs for loans to the public out of average outstanding loans to the public	**0.03**	(0.18)
Percentage of balance of the loan loss provision for loans to the public out of outstanding loans to the public	**1.30**	1.76
Percentage of balance of the loan loss provision for loans to the public out of outstanding impaired loans to the public	**153.00**	131.62
Percentage of balance of the loan loss provision for loans to the public out of outstanding impaired loans to the public and the outstanding loans to the public in arrears of 90 days or more	**115.99**	109.46
Percentage of net write-offs for loans to the public out of the outstanding loan loss provision for loans to the public	**1.99**	(10.00)

In the reporting period, there was a decline (improvement) in most indicators mentioned above in light of the positive developments recorded in 2021, such as the success of the extensive vaccination effort and its positive effect on the decline in morbidity and the reopening of the economy as well as the improvement in the economic indicators underlying the provision. The Bank continues to closely and meticulously follow the developments in the state of the economy and health, and their possible implications for credit risks.

Credit Concentration

Concentration risk is defined as a single exposure or group of exposures having a common attribute, which creates the potential to cause significant losses. Concentration risk is mainly managed by setting limitations and monitoring and controlling compliance therewith.

The sources of concentration relevant to the Bank's loan portfolio are as follows: Economic sectors, single borrowers and groups of borrowers.

The concentration risk is managed by ensuring compliance with all regulatory restrictions, as well as by defining and regularly monitoring compliance with all internal restrictions (which are mostly more stringent than regulatory ones).

Credit portfolio diversification among various economic sectors

To diversify the risk embodied in a high concentration in one sector, the Bank's credit portfolio is split between the various economic sectors. In relatively low risk economic sectors, we aim to reach a higher share than our share of the banking system.

The Bank's credit policy on various operating segments and economic sectors changes from time to time in accordance with the business environment, the Bank's business focus and risk appetite, as well as the Bank of Israel's general and specific directives.

Overall Credit Risk to the Public by Economic Sector

	December 31 2021						
					Loan losses[c]		
	Overall credit risk[a]	Of which: Credit perfor-mance rating[e]	Of which: Troubled credit risk[d]	Of which: Impaired credit risk	Loan loss expenses (income)	Accoun-ting write-offs, net	Balance of loan loss provision
	In NIS millions						
For borrowers activity in Israel - public-commercial							
Industry	27,273	26,697	496	152	(1)	17	(417)
Construction and real estate - construction[f]	78,706	78,157	349	96	170	(28)	(682)
Construction and real estate - real estate activity	40,768	40,028	321	223	(2)	(66)	(468)
Commerce	32,951	32,496	394	167	(166)	14	(297)
Financial services	44,925	44,889	33	12	29	(8)	(268)
Other industries	51,911	50,151	1,579	831	(597)	(137)	(814)
Commercial - total[g]	276,534	272,418	3,172	1,481	(567)	(208)	(2,946)
Private individuals - housing loans	107,323	104,392	629	20	(141)	5	(489)
Private individuals - Other	40,133	37,890	653	370	(44)	20	(727)
Total public - activity in Israel	423,990	414,700	4,454	1,871	(752)	(183)	(4,162)
Banks and governments - in Israel	34,854	34,854	-	-	-	-	(1)
Total activity in Israel	458,844	449,554	4,454	1,871	(752)	(183)	(4,163)
For borrower activity outside Israel							
Total, public - activity outside Israel	75,225	70,704	2,883	1,249	(60)	93	(819)
Foreign banks and governments	64,267	64,267	-	-	-	-	(2)
Total activity outside Israel	139,492	134,971	2,883	1,249	(60)	93	(821)
Total activity in and outside Israel	598,336	584,525	7,337	3,120	(812)	(90)	(4,984)

(a) On-balance sheet and off-balance sheet credit risk, including for derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, assets for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 364,653, 82,568, 2,447, 13,811 and 134,857 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under “Other liabilities”).

(d) On-balance sheet credit risk and off-balance-sheet credit risk that is impaired, substandard or special mention, including housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.

(e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(f) Including housing loans extended to certain purchasing groups currently in the process of construction.

(g) The commercial credit risk includes an outstanding NIS 2,519 million extended to purchasing groups currently in the process of construction.

Overall Credit Risk to the Public by Economic Sector (cont.)

	December 31 2020						
					Loan losses[c]		
	Overall credit risk[a]	Of which: credit performance rating[e]	Of which: troubled credit risk[d]	Of which: Impaired credit risk	Loan loss expenses (income)	Accounting write-offs, net	Balance of loan loss provision
	In NIS millions						
For borrowers activity in Israel - public-commercial							
Industry	26,086	25,216	511	281	147	105	(454)
Construction and real estate - construction[f]	62,099	61,643	350	137	145	25	(479)
Construction and real estate - real estate activity	33,769	32,926	525	332	100	(32)	(405)
Commerce	31,491	30,407	1,000	467	157	35	(471)
Financial services	33,751	33,739	12	4	51	(13)	(233)
Other industries	47,542	44,922	1,953	941	828	112	(1,261)
Commercial - total[g]	234,738	228,853	4,351	2,162	1,428	232	(3,303)
Private individuals - housing loans	93,455	87,028	748	26	174	6	(635)
Private individuals - Other	43,115	40,745	654	336	271	136	(790)
Total public - activity in Israel	371,308	356,626	5,753	2,524	1,873	374	(4,728)
Banks and governments - in Israel	46,509	46,509	-	-	-	-	(1)
Total activity in Israel	417,817	403,135	5,753	2,524	1,873	374	(4,729)
For borrower activity outside Israel							
Total, public - activity outside Israel	64,693	59,100	3,481	1,732	678	155	(984)
Foreign banks and governments	53,737	53,722	15	15	1	-	(2)
Total activity outside Israel	118,430	112,822	3,496	1,747	679	155	(986)
Total activity in and outside Israel	536,247	515,957	9,249	4,271	2,552	529	(5,715)

(a) On-balance sheet and off-balance sheet credit risk, including for derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, assets for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 311,668, 87,901, 3,019, 15,255 and 118,404 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under “Other liabilities”).
(d) On-balance sheet credit risk and off-balance-sheet credit risk that is impaired, substandard or special mention, including housing loans which are in arrears of 90 days or more, for which there is a provision based on the extent of arrears and housing loans for which there is no provision based on the extent of arrears.
(e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(f) Including housing loans extended to certain purchasing groups currently in the process of construction.
(g) The commercial credit risk includes an outstanding NIS 2,707 million extended to purchasing groups currently in the process of construction.

Activity and risk boundaries in the construction and real estate industry

The construction and real estate sector is an area of activity to which the Bank has a significant credit exposure. As with other economic sectors, the bank's credit policy outlines internal methodologies and criteria for financing transactions in each of the real estate industry's sub-industries.

Leumi's focus on real estate financing is reflected, inter alia, in the fact that a significant part of the Bank's activity is concentrated in a dedicated function specializing in serving customers in this area. The Construction and Real Estate Department finances some of the most extensive and/or complex transactions in this field, leveraging its credit officers' expertise and practical experience.

A significant portion of construction and infrastructure loans are extended under the construction loan model, which is characterized by periodic assessment and close monitoring of relevant criteria (such as: Sales, construction progress, staying within budget, etc.). This is done by relying in part on certified outsourced construction supervisors.

Credit granted to the real estate sector is in line with the Bank's risk appetite, according to the adequate risk level and pricing. As a result, and in an effort to continue being a dominant player in real estate financing, the Bank strives to make optimal and effective use of the internal and regulatory restrictions in this domain.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and the development of the segment's risk characteristics.

The Bank also analyses the real estate sector's risk under a systemic stress scenario. In this context, loan losses are broken down into sub-sectors and examined against the risk appetite.

In addition to the regulatory restriction and in order to effectively manage the internal credit risk mix, the Bank is careful to maintain geographical diversification of the projects, according to demand and across the various sub-sectors.

As of 2016, the Bank insures its guarantees portfolio in accordance with the Sales Law (Apartments).

These policies, which were purchased from global, high-rated reinsurers, insure the Bank against paying for the forfeiture of Sale Law guarantees, according to the terms and conditions of the policy.

According to a decision by the Bank's management, the said insurance policy for the said Sale Law guarantees was not renewed for new projects which were launched from January 12 2021.

As of December 31 2021, the Bank also insures a portion of its financial loan portfolio financing land, through global reinsurers with high credit ratings, which insure the Bank if an insured loan for land is not duly repaid.

The insurance transactions enable the Bank to reduce the capital held for the credit risk arising from the issuance of the guarantees or loans extended for lands, while using the policy as a credit risk mitigator (the reduction is in line with the rating of the reinsurers).

On December 27 2021, the Bank of Israel revised Proper Conduct of Banking Business Directive No. 315, which extends the easement provided by the temporary order[1] to the real estate and construction industry in the banking system, as follows:

- The exposure restriction to the real estate and construction industry was extended from 20 percent to 22 percent of the loan portfolio (excluding national infrastructure)
- The exposure restriction to the real estate and construction industry (including national infrastructure) was extended from 24 percent to 26 percent of the loan portfolio.

The easements will be in effect for a period of up to 24 months as of December 31 2025, provided that the rate of indebtedness shall not exceed the higher of: the rate as at December 31 2025 or the rate of the industry-specific restriction prior to the easement.

1 Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis dated January 10 2021.

- It was determined that credit for which eligible credit insurance was provided would be classified according to the insuring industry. Such that in order to measure the industry limitation, credit for real estate and construction covered by eligible credit insurance will be deducted from the indebtedness of the real estate and construction industry.

During the past year, the construction and real estate sector grew, causing higher demand for business credit from the banking system and non-banking financing entities.

In the course of 2021, Leumi was proactively expanded the real estate portfolio, focusing on the housing segment and selected financially resilient customers.
The real estate sector is defined by the Bank as relatively low-risk compared to other economic sectors. This is supported by the macroeconomic forecasts, the tight financing and regulation method, and backed by property collateral.

Total troubled credit risk (special mention, substandard or impaired) in the construction and real estate sectors in Israel is on the decline, including its share of the Bank's credit risk portfolio in the construction and real estate sectors in Israel. In addition, the total troubled credit in these sectors in Israel (special mention, substandard or impaired) out of overall troubled credit risk in Israel (special mention, substandard or impaired) is low and lower than its share in the total credit portfolio. In light of the growing competition, some of the transactions carried out in the past year followed relatively lenient parameters compared to similar transactions carried out in the past. It is noted that the real estate transactions are approved through a stringent underwriting process, using adequate protections and seeking to price the risk adequately.
The increase in the financing activity in the construction and real estate sectors resulted in growth in Leumi's real estate credit portfolio, with a certain increase in LTV ratios due to fiercer competition. Most of the increase in the LTV was in the financing of residential land and projects and is explained, in some cases, by the increase in land prices in high-demand areas.

- According to the guidance of the Bank of Israel to the banking system, the Bank established criteria for high-risk transactions in the construction and real estate industry, which are monitored on a quarterly basis. It should be noted that at this stage, these transactions do not have a material effect on the quality of the Bank's construction and real estate credit portfolio.
- The Bank examined its collective provision calculation in real estate and adjusted it in order to take into account the quick increase in the loan portfolio and certain reliefs in the underwriting terms and conditions.

As part of managing the credit risk in respect of the construction and real estate segment, the Bank continues to follow and monitor the portfolio in accordance with the regulatory restrictions, credit policy and characteristics of the segment.

As of December 31 2021, the Bank complies with the regulatory and internal restrictions set out in the law, which are in line with the Bank's assessment of the risk embodied in the various sub-sectors. Nevertheless, due to the growth in the sector in the reporting period, the Bank is working on implementing a plan to reduce the concentration ratio in the sector.

Some of the above information constitutes "forward-looking information". For the meaning of the term, please see under Forward-Looking Information.

Impact of the coronavirus crisis

Two years after the onset of the crisis, the pace of completed residential construction has yet to return to its pre-crisis levels. This is mainly due to the shortage of manpower. However, it may be said that the housing construction industry sustained less harm than other economic sectors.
During the crisis, the industry was deemed vital and government reliefs were granted to enable its continuation even during lockdown (including permits to hire foreign workers).

The negative effect of the crisis on the demand in the industry was mainly short-term, due to the uncertainty among apartment buyers and the effect of the lockdown on developers' ability to sell apartments at the beginning of the crisis, which created unusual volatility.

However, the relatively strong demand, stemming from the population growth, in addition to an ongoing shortage of residential units, mitigated the harm to the industry’s activity, which - and after the first months of the crisis - even enjoyed a significant rise in demand.
The number of finished apartments continues to be lower than the ongoing demand, supporting continued pressure on price increases in the housing market.

During the lockdowns, mid-sized and large shopping centers sustained significant decline in income. Between lockdowns, and particularly since the end of the third wave, shopping centers are seeing increased activity, since Israelis are less inclined to travel abroad. Commercial centers prepared for online sales, which partially offset the effect of the restrictions. Moreover, a partial opening of essential stores - mainly food and drug stores as well as spaces rented out to clinics and other services - enabled owners to collect some rent despite the restrictions.

The decline in revenues varies according to the type of property, with the most significant impact being on shopping centers that were closed due to lockdown, given the concern for the consumers’ health.

Looking forward, once the economy resumes full activity - and provided no significant restrictions are imposed due to morbidity rates that would delay the economy’s recovery from the crisis - the assessment is that these centers will continue to recover, albeit at a slow pace, partly in light of the e-commerce trends, on the back of a significant expected increase in the supply of office space in the coming years.

The office market showed relative robustness during the crisis, sustaining moderate damage, compared to past crises, particularly in Tel Aviv. In the short-term, the impact was mainly on offices located in older properties that are let out to small businesses, which were hurt by the crisis.

The moderate harm - which was mainly recorded in Tel Aviv - is affected by the high-tech industry, which led the demand for office space, with rapid increases in income and the number of employees; however, recovery in other office industries (such as business services, insurance and finance) is slower; accordingly, in areas which are not high-tech oriented, operational indicators have yet to recover to pre-coronavirus levels.

Development of indebtedness for the construction and real estate industry (in and outside Israel)

	December 31		Change compared to December 31 2020	
	2021	2020		
	In NIS millions		In NIS millions	In %
On-balance-sheet credit risk	**90,905**	70,646	20,259	28.7%
Guarantees for apartment buyers[(a)]	**7,669**	5,181	2,488	48.0%
Other off balance sheet credit risk[(a)]	**37,872**	33,928	3,944	11.6%
Total overall credit risk	**136,446**	109,755	26,691	24.3%

In credit risk terms

Following are the details on credit risk in the real estate and construction sector in Israel, according to the status of the property - the Bank

	December 31	
	2021	2020
	Overall credit risk[(a)]	
	In NIS millions	
Secured by real estate collateral		
Real estate properties under construction:		
Undeveloped land	**21,758**	12,576
Real estate under construction[(b)]	**37,794**	31,126
Finished real estate properties	**36,173**	31,890
Total credit secured by real estate properties in Israel	**95,725**	75,592
Not secured by real estate collateral in Israel	**23,319**	19,932
Overall credit risk for construction and real estate in Israel	**119,044**	95,524

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.

(b) On December 31 2021, the composition of residential projects under construction is: absorption capacity of 0-29: NIS 874 million, absorption capacity of 30-99: NIS 13,574 million, absorption capacity of +100: NIS 7,077 million, project starts - NIS 4,483 million. Absorption capacity – an indicator reflecting the maximum rate of erosion of apartment inventory prices such that it provides adequate coverage to the project's costs, taking into account own capital invested and presale.

Following is the composition of credit secured by real estate properties in Israel (in NIS million) - the Bank

	December 31	
	2021	2020
	Overall credit risk[(a)]	
	In NIS millions	
Housing	**51,195**	38,250
Office space	**17,249**	13,750
Industry	**4,691**	3,753
Commerce and services	**22,590**	19,839
Total credit secured by real estate properties in Israel	**95,725**	75,592

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.

Analysis of the Bank Group's credit quality in the construction and real estate industries

	December 31		
	2021	2020	
	In NIS millions		Change in %
Credit risk in credit performance rating			
Non-troubled Credit Risk	**134,002**	107,007	25.2
Credit risk not in credit performance rating			
Non-troubled	**1,165**	951	22.5
Troubled unimpaired	**713**	948	(24.8)
Impaired	**566**	849	(33.3)
Overall credit risk with no performance rating	**2,444**	2,748	(11.1)
Total	**136,446**	109,755	24.3

Below are additional data regarding the overall credit

Following is a breakdown of total loans to the public and off-balance-sheet credit risk by individual borrowers' loan amount

Maximum credit in NIS thousands		December 31					
		2021			2020		
		% of total no. of borrowers	% of total on-balance sheet credit	% of total off-balance-sheet credit	% of total no. of borrowers	% of total on-balance sheet credit	% of total off-balance-sheet credit
From	To	In %			In %		
-	80	**74.1**	**3.0**	**8.4**	72.1	3.2	11.1
80	600	**19.3**	**15.7**	**5.9**	21.8	17.8	11.0
600	1,200	**4.2**	**14.1**	**3.2**	4.1	14.7	4.1
1,200	2,000	**1.4**	**7.9**	**2.5**	1.2	7.4	2.7
2,000	8,000	**0.7**	**8.6**	**4.5**	0.6	8.5	4.9
8,000	20,000	**0.2**	**6.5**	**4.4**	0.1	6.7	4.4
20,000	40,000	**0.07**	**6.7**	**4.9**	0.07	6.9	5.4
40,000	200,000	**0.07**	**17.5**	**19.0**	0.06	18.2	18.7
200,000	800,000	**0.01**(a)	**11.8**	**23.8**	0.01(a)	10.1	18.9
Over 800,000		**-**(b)	**8.2**	**23.4**	-(b)	6.5	18.8
Total		**100.0**	**100.0**	**100.0**	100.0	100.0	100.0

(a) In 2021 - 201 borrower and in 2020 - 152 borrowers.
(b) In 2021 - 38 borrower and in 2020 - 31 borrowers (in percentage - less than 0.01).

For more information regarding credit granting by size, please see Note 30.C.

Following is the credit risk by size of credit totaling more than NIS 800 million extended to a borrower

Maximum credit in NIS millions		December 31					
		2021			2020		
		No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk	No. of borrowers	Balance-sheet credit	Off balance-sheet credit risk
From	To		In NIS millions			In NIS millions	
800	1,200	**18**	**9,227**	**9,088**	17	8,462	7,264
1,200	1,600	**7**	**6,642**	**2,862**	5	1,966	4,993
1,600	2,000	**3**	**1,693**	**3,318**	5	5,047	3,309
2,000	2,400	**5**	**5,553**	**5,657**	2	1,641	2,743
2,400	2,800	**3**	**3,312**	**4,538**	2	2,717	2,419
2,800	3,132	**2**	**2,295**	**3,638**	-	-	-
3,200	3,943	**-**	**-**	**-**	-	-	-
Total		**38**	**28,722**	**29,101**	31	19,833	20,728

Borrower Groups[1]

The Bank conducts orderly monitoring processes to ensure it complies with the restrictions imposed by Proper Conduct of Banking Business Directive No. 313, "Restrictions on Indebtedness of a Borrower or Group of Borrowers".

On December 27 2021, the Banking Supervision Department published an amendment to Directive No. 313, which excludes from the definition of a "controlling entity" an institutional investor which holds no more than 20 percent of the means of control in a corporations, even if it holds the highest equity stake.

The amendment became effective as at January 1 2022.

As at December 31 2021, the Bank complies with these Directive's restrictions.

Exposure to Foreign Countries

Part A - Information regarding total exposure to foreign countries and to countries where the total exposure to each country is the lower of the following: More than 1 percent of consolidated total assets or more than 20 percent of total capital for the purpose of calculating the capital ratio:

	December 31					
	2021			2020		
	Exposure(a)(b)			Exposure(a)(b)		
	On-balance-sheet	Off balance-sheet(c)	Total	On-balance-sheet	Off balance-sheet(c)	Total
	In NIS millions					
USA	**36,853**	**8,329**	**45,182**	29,300	5,774	35,074
UK	**19,793**	**10,971**	**30,764**	17,678	8,049	25,727
France	**1,887**	**2,355**	**4,242**	3,418	1,966	5,384
Switzerland	**2,455**	**2,303**	**4,758**	1,050	1,915	2,965
Germany	**3,262**	**1,501**	**4,763**	3,665	1,613	5,278
Other	**23,773**	**4,637**	**28,410**	22,090	2,616	24,706
Total exposure to foreign countries	**88,023**	**30,096**	**118,119**	77,201	21,933	99,134
Of which: total exposure to GIPS countries(d)	**608**	**300**	**908**	917	276	1,193
Of which: total exposure to LDC countries(e)	**1,331**	**1,161**	**2,492**	1,068	892	1,960
Of which: total exposure to countries with liquidity issues(f)	**208**	**50**	**258**	1,018	152	1,170

(a) Exposure to foreign countries is presented based on the final risk.

(b) On balance-sheet and off-balance-sheet credit risk, troubled commercial credit risk and impaired debts are stated before the effect of the loan loss provision and the effect of collaterals that are deductible for the purpose of specific and general indebtedness of a borrower and a group of borrowers and before the effect of bilateral offsetting for derivatives.

(c) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of per-borrower credit indebtedness limitations, before the effect of netting for derivatives.

(d) Exposure to the GIPS countries includes: Greece, Italy, Portugal, and Spain.

(e) The Exposure to LDCs line item includes total exposure to countries defined as Less Developed Countries (LDCs), which are classified by the World Bank as low- or mid-income countries.

(f) The Bank set several criteria, according to which a list of several countries was drawn, where the current conditions may reflect liquidity problems and which may have an effect on their solvency. The balance amount applies to 14 countries (as at December 2020 - 16 countries). As of March 2021, the measurement does not include exposures to investment-grade countries, unless they were individually identified as having liquidity issues which may have a material effect on their solvency.

Part B - As at December 31 2021 and December 31 2020, there is no aggregate on-balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75 percent and 1 percent of total consolidated assets or between 15 percent and 20 percent of equity, whichever the lower.

[1] A borrower group is all of the following together: the borrower, a person controlling it and all those controlled by them, excluding banks. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from an equity standpoint), including the corporation or any other entity under their control. If a corporation is held by more than one person, the owners should include any non-controlling party for whom the banking corporation is material (e.g. from an equity standpoint), with the owned corporation and any other entity controlled by the owners as a single group of borrowers; exceptions are cases where an institutional investor holds no more than 20 percent of controlling means, even in cases where it holds the highest equity stake. Borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

Credit Exposure to Foreign Financial Institutions

Credit exposure to foreign financial institutions refers to commercial banks, banking holding entities, investment banks, insurers and other financial entities.

The Bank closely monitors the position of banks worldwide and frequently analyzes their financial robustness. The Bank maintains a shortlist of high-quality banks to which it has collective credit exposures.

The global recession, on the back of the coronavirus crisis, led the world's central banks to support financial systems, including taking measures such as: capital requirements reliefs, reliefs in applying accounting reforms, provision of liquidity tools to banks, etc. At this time, the central banks are gradually removing the various reliefs.

The Bank continues to monitor foreign financial institutions and is adjusting its exposure thereto in accordance with the changes in the risk environment.

Credit exposure to foreign financial institutions[(a)]

	As at December 31 2021[(e)]		
	On balance-sheet credit risk[(b)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	**25,761**	**792**	**26,553**
A- to A+	**5,701**	**1,128**	**6,829**
BBB- to BBB+	**168**	**166**	**334**
B- to BB+	**15**	**18**	**33**
No credit rating	**94**	**-**	**94**
Total current credit exposure to foreign financial institutions	**31,739**	**2,104**	**33,843**

	As at December 31 2020[(e)]		
	On balance-sheet credit risk[(b)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS millions		
Total current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	23,742	581	24,323
A- to A+	3,863	725	4,588
BBB- to BBB+	526	216	742
B- to BB+	93	7	100
No credit rating	163	-	163
Total current credit exposure to foreign financial institutions	28,387	1,529	29,916

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities.
(b) As at December 31 2021, deposits with banks, loans to the public, securities borrowed or purchased under reverse repurchase agreements, other assets in respect of derivatives (fair value of derivatives), and investments in bonds, including subordinated bonds of banks totaled NIS 597 million (as at December 31 2020 - NIS 600 million).
(c) Mainly guarantees and commitments to extend credit (excluding off-balance-sheet derivatives).
(d) The Bank uses ratings of well-known rating agencies (ECAIs).
(e) As of December 31 2021 and December 31 2020, there is no troubled credit risk vis a vis foreign financial institutions.

Comments:
1. The credit exposures do not include investments in asset-backed securities (for more information, please see Note 12).
2. Some of the banks received various forms of government support, including by way of direct equity investment, government guarantees for certain asset portfolios, guarantees for raising funds for the banks, etc.
3. For more information regarding the composition of credit exposures for derivatives with banks and brokers/dealers (local and foreign), please see Note 28B.C.

Housing Loans Portfolio Risks

Credit risk developments

Economic developments in Israel in recent years (a low interest environment, the affordable housing program, and an increase in housing prices) have led to a significant increase in housing credit provision, both for housing and investment purposes.

The housing loan portfolio is monitored and the trends in its characteristics and risk centers analyzed on a regular basis, The Bank also extends individual housing loans to members of housing purchase groups.

The Bank adheres to a balanced underwriting policy that takes into account the borrower's repayment capacity, linkage base and interest, loan-to-value ratio (LTV), etc., while complying with all of the requirements of the Banking Supervision Department.

Extending loans to members of housing purchase groups meets market demand by private organizations, historical landowners, etc. From a risk standpoint, the loans are extended to different, geographically diversified populations, following close scrutiny of each borrower's repayment capacity.

In case of default, the risk of default is managed by the Bank in two ways - the first is preventive, to mitigate the risk of default and the second - collecting debt in case of default

First stage -

- Stringent underwriting - based on regulatory restrictions (Directive No. 329 - examining repayment capacity, LTV and credit mix) and is backed by models testing credit risk, which rely - inter alia - on information from the customer's Leumi account or the Bank of Israel's Central Credit Register.
- Building a mix customized to the customer's needs, which allows meeting monthly repayments.
- Real estate collateral - credit is subject to providing collateral to the Bank's satisfaction, according to the nature of the credit and property. The collateral are examined by the mortgage consultants; in complex cases - additional an review is conducted.
- Payment deferment (grace) - partial grace is optional, in accordance with the provisions of the Banking Law - Service to Customers. In addition, a grace track is given to any customer experiencing cash flow issues, according to the Bank's policy.

Second stage - collection -

- "Soft collection" - a call center which contacts customers experiencing repayment difficulties once the first default event occurs; assistance is provided to customers, reaching debt settlement agreements and support until the debt is repaid
- Legal claim -
  - Collection of debt through the Collection System Authority.
  - Disposal of the property through the collateral provided.

During 2021, new loan performance for housing in Israel increased over 2020 due to demand for housing loans in Israel both for housing loans in Israel - both to purchase homes and credit for investing in securing homes.

Performance of new loans and refinancing loans for the purchase of residential apartments and mortgaging of residential apartments in Israel

	2021	2020	
	Total for the year	Total for the year	Rate of change
	In NIS millions		In %
By the Bank	**26,625**	17,016	56.5
By the government of Israel	**150**	150	-
New loans	**26,775**	17,166	56.0
Recycled loans	**2,175**	2,590	(16.0)
Total performance	**28,950**	19,756	46.5

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis.
The unemployment rate may have an adverse effect of the Bank's housing loans portfolio.
On March 15 2020, the Bank of Israel published a temporary order comprising several regulatory reliefs including: lifting the restriction on all-purpose loans of households secured by property. The Bank adopted the relief in order to help its customers, after becoming convinced that these customers will be able to overcome the crisis. This temporary order allows to increase the LTV ratio for all-purpose loans from 50 percent to 70 percent.
On August 9 2021, the Bank of Israel published a revision to the Banking Supervision Department's guidance on housing loans, including its decision not to extend this easement, which expired on September 30 2021.
On December 27 2020, the Bank of Israel published a revised Proper Conduct of Banking Business Directive No. 329, which revokes the prime interest rate restriction (according to which the prime portion of the loan shall not constitute more than one third of the total loan), leaving in place the restriction according to which the ratio between the variable interest portion of a housing loan and the total loan amount shall not exceed 66.66 percent. The directive became effective on January 17 2021 for new housing loans and on February 28 2021 - for refinancing housing loans.
On October 6, 2021, the Bank of Israel published a revised FAQ - "Limitations on Issuing Housing Loans".
According to the revised directive, a banking corporation may not grant an additional loan to a borrower intended to serve as a down payment for a home. This applies both to consumer loans and to loans guaranteed by another apartment. Despite the aforesaid, a banking corporation may grant a borrower an additional loan to complete the financing of another apartment, subject to meeting all the terms and conditions set out in the FAQ.
In addition, it was determined that among the objectives included in classifying "all-purpose loans", a loan secured by an apartment as outlined in Section 3(3) to Directive No. 451, which is not intended for the purchase of real estate, and that the loan intended to recycle an existing loan shall be classified in accordance with the original purpose of the loan (loan to purchase an apartment or all-purpose-loan). A loan intended to recycle several loans will be classified proportionately to the purpose of the original loans.

- On January 31 2022, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 451. The purpose of the directive is to increase information transparency to customers and improve the competitive environment in the mortgage sector.
- On pre-approval, a banking corporation is required to provide customers with 3 uniform tracks and an additional "suggested track" - a track that is recommended to the customer.
  - Banking corporations are not required to present uniform tracks for all-purpose loans secured by residential properties if the loan is not intended to purchase real estate rights, and for housing loans that are not secured by residential properties (such as home-improvement loans), since they are for shorter terms and lower amounts (and are more akin to consumer loans).
- Banking corporations are required to provide customers with an online calculator to enable them to run loan scenarios for various amounts and periods.
- Banking corporations are required to provide customers with pre-approval up to 5 working days from the date on which the loan application was submitted. In unusual cases, where loans are predefined in a banking corporation's credit policy, preapproval will be provided within 7 working days, and customers will be informed about the delay and reasons thereto.
- The directive determined the type of information a banking corporation is required to present in its app, but customers which do not use digital channels should be informed in writing.
- Uniform rules have been set to calculate the "overall expected interest" in the banking system.

The Bank is preparing to implement the revised directive. The revision will enter into force on August 31 2022.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	In NIS millions	In %
December 31 2019	83,746	4.8
December 31 2020	89,594	7.0
December 31 2021	103,109	15.1

Recent years saw an increase in total housing loans. The increase continued and even grew further in 2021, inter alia, due to the rallying of the real estate market as a result of the maturing of affordable housing projects and partial recovery of investments.

As part of its monitoring of risk centers in the housing loans portfolio, the Bank also monitors characteristics of the portfolio and new credit, including the new credit's breakdown by loan-to-value ratios (loan-to-value ratio (LTV) is the ratio of total credit approved for the borrower - even if it has not yet been actually extended either in full or in part - out of the value of the mortgaged property during the approval of the credit line) and the repayment ratio (the repayment ratio is defined as the ratio between the available monthly income and monthly repayment).

Development of the outstanding housing loans portfolio based on linkage bases and as a percentage of the Bank's outstanding loans portfolio

	Non-linked segment				CPI-linked segment				Foreign currency segment		
	Fixed interest		Variable interest		Fixed interest		Variable interest		Variable interest		
	Balance in NIS million	Percentage of the loans portfolio	Balance in NIS million	Percentage of the loans portfolio	Balance in NIS million	Percentage of the loans portfolio	Balance in NIS million	Percentage of the loans portfolio	Balance in NIS million	Percentage of the loans portfolio	Total loans portfolio, in NIS millions
December 31 2019	16,182	19.3	34,311	41.0	13,509	16.1	19,012	22.7	732	0.9	83,746
December 31 2020	18,904	21.2	36,380	40.6	14,077	15.7	19,658	21.9	575	0.6	89,594
December 31 2021	**23,325**	**22.6**	**42,655**	**41.4**	**15,203**	**14.7**	**21,440**	**20.8**	**486**	**0.5**	**103,109**

Development of new housing loans by interest track, in Israel

The following table outlines the development of the new credit performance by variable and fixed interest tracks (a variable-interest loan's interest rate may change over the loan period):

	2021				2020	2019
	Q4	Q3	Q2	Q1	Annual average	Annual average
	Rate of performance					
	In %					
Fixed - Linked	**11**	**12.4**	**16**	**16.2**	16.7	20.6
Variable every 5 years or more - linked	**17.1**	**16.0**	**15.9**	**17.0**	18.5	19.2
Fixed - non-linked	**30.3**	**27.3**	**26.5**	**28.8**	29.5	24.4
Variable every 5 years or more - non-linked	**1.3**	**1.5**	**1.6**	**1.7**	3.1	3.2
Variable up to 5 years - non-linked	**40.1**	**42.6**	**39.9**	**36.3**	32.2	32.5
Variable - Foreign currency	**0.2**	**0.2**	**0.1**	**-**	-	0.1

The percentage of new variable-interest housing loans granted by the Bank during 2021 was 57.9 percent compared to approx. 53.8 percent in 2020. The data refer to all variable interest tracks and the various linkage segments, including loans in which the interest rate changes every 5 years or more. Excluding loans in which the variable interest rate changes every 5 years or more - which do not qualify as a variable interest loan under the Banking Supervision Department's directive - the percentage of variable-interest housing loans extended during 2021 is 39.9 percent compared to 32.2 percent in 2020.

Data for housing loans in Israel

During 2021, the Bank granted new housing loans totaling NIS 26.6 billion out of its funds.

The average loan extended by the Bank in 2021 was NIS 900 thousand, compared to NIS 774 thousand in 2020 and NIS 723 thousand in 2019.

Following is a balance of the housing loans portfolio and balances in arrears of over 90 days, in Israel

	Recorded outstanding debt	Amount in arrears	Percentage of amount in arrears
	In NIS millions		In %
December 31 2019	84,212	830	0.99
December 31 2020	90,228	720	0.80
December 31 2021	**103,599**	**609**	**0.59**

As of December 31 2021, the outstanding loan loss provision, which includes the collective provision for housing loans (hereinafter - the "collective provision"), is NIS 489 million, constituting 0.47 percent of the housing loans' outstanding balance, compared with NIS 634 million as at December 31 2020, which constitutes 0.70 percent of the outstanding housing loan balance.

Development of LTV ratio for new loans over 60 percent, in Israel

Following is the development in new credit granted by the Bank at an LTV ratio of over 60 percent, (LTV ratio is the ratio of the total loan granted to the borrower - even if it has not yet been granted in effect either in full or in part - out of the value of the pledged property during the approval of the credit line)

	2021				2020	2019
	Q4	Q3	Q2	Q1	Annual average	Annual average
LTV ratio	In %(a)					
Over 60 and up to 70, inclusive	21.7	21.8	22.4	20.7	19.7	17.2
Over 70 and up to 75, inclusive	23.2	24.3	23.6	21.5	19.1	17.5
Over 75	0.1	0.1	0.1	0.2	0.2	0.2

(a) Out of total new credit granted by the Bank.

Development of the loan-to-value (LTV) ratio, outstanding loans portfolio in Israel

The average LTV of the outstanding loan portfolio as at December 31 2021 stands at 47 percent, compared with 45.5 percent in 2020.

Development of new loans, in which the repayment ratio is lower than 2.5, in Israel

Repayment ratio is defined as the ratio between the monthly available income and the monthly repayment amount.
The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in 2021 was 0.29 percent of the total number of new loans granted compared with 0.3 percent in 2020.
The calculation is in accordance with the Bank of Israel's Reporting Directive No. 876.

Development of new loans, for which the loan term is longer than 25 years, in Israel

The percentage of new housing loans in 2021 for which the loan terms are longer than 25 years stood at an average of 39.5 percent of the total new loans granted, compared with an average of 37.5 percent in 2020.

Credit Risk for Loans to Private Individuals (Excluding Housing Loans)

Credit granted to private individuals whose repayment capacity is largely based on their household's earning capacity is characterized by a very significant diversification of borrowers and a variety of credit products (various types of loans, current accounts, credit cards) and - to a lesser extent (on average) - credit per individual customer.
Individual customers' activity is almost entirely concentrated in the Banking Division.

To address the increase in credit granted to private individuals and given the wide span of control required to manage it, and with the aim of implementing adequate corporate governance, several functions have been enhanced, both in the Retail Banking Division - which constitutes the first line of defense, and in the Risk Management Division - which constitutes the second line of defense.

In recent years, the Retail Banking Division has operated special-purpose units. Following are the key ones:

Credit and risk management center - in 2021, it was decided to concentrate under one roof all the loan applications that do not come within the purview of the branches, while separating between account managers and parties which challenge the granting of the loan; serve as a professional resource for loan officers at the branches; regularly monitor and control the provision of credit at the branches, with lessons drawn and conveyed both to the field (branches) and to the Division’s management.

Early collection units and troubled debt centers - coordinate the handling of debts in arrears before classifying the borrower as troubled as well as handling borrowers classified as troubled. These units provide professional services of handling, making arrangements and collection, including through external law firms.

The Risk Management Division monitors and maintains a second line of defense, which includes - inter alia - identification of trends and segments in the private loans portfolio; monitoring the prediction quality of risk estimation models for borrowers; examining the quality and integrity of business entities’ control procedures; reviewing samples of individual portfolios, as needed, etc.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Retail Banking Division, constitutes a key element in outlining the risk appetite and ongoing management of this domain.

The following are some of the key principles of the Bank’s consumer credit policy: Assess each borrower’s credit risk; base underwriting decisions on the borrower’s debt service capacity, especially his/her income and/or based on the account behavior and/or data from the Central Credit Register; create a well-defined, structured chain of command for authorizing credit; adhere to fair business conduct practices (integrity; transparency; match products to customers’ needs; fair pricing; address customer complaints); match the credit to the customers' needs and capacity; and increase awareness of the compliance aspects that could arise from credit provision.

The Bank extended and boosted the ongoing monitoring of its entire consumer credit portfolio, while adhering to strict underwriting, management and control processes at the individual borrower and aggregate level, based, inter alia, on an internal set of indicators.
From time to time, and during 2021, the set of internal measures is revised, both for developments of the entire portfolio (“inventory”) and the new credit risk profile, which are monitored on a regular basis, at least quarterly. The developed parameters address numerous aspects and characteristics which reflect diverse and complementary points of view about the new credit risk profile. Although these are red flags rather than restrictions (as they are formally defined), they do express the desirable risk appetite at the individual loan portfolio level. In 2021, due to the continued private consumption trends in the Israeli economy due to the effect of the coronavirus crisis, and, as a result, in the leverage level of households, the Bank boosted its close monitoring of the developments in this portfolio.

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis.

The unemployment rate is likely to have a long term adverse effect on the loan portfolio of private individuals.

For more information regarding the draft revision of the FAQ published by the Bank of Israel on October 6 2021, please see under “Risks in the Housing Loan Portfolio”.

Developments in outstanding overall credit risk (excluding derivatives) for loans granted to private individuals (in Israel, excluding housing loans)

	Balance of credit risk
	In NIS million
December 31 2019	44,387
December 31 2020	43,108
December 31 2021	**40,121**

Following is a distribution of the on-balance sheet credit risk (excluding derivatives) for loans to private individuals, by term to maturity (in Israel, excluding housing loans)

	December 31			
	2021		2020	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Up to one year	**4,785**	**17.3**	4,585	17.8
Over one year to 3 years	**5,253**	**19.0**	4,993	19.4
Over 3 years to 5 years	**7,983**	**28.9**	9,024	35.0
Over 5 years to 7 years	**5,396**	**19.5**	3,737	14.5
Over 7 years	**2,023**	**7.3**	1,451	5.6
No repayment term[a]	**2,219**	**8.0**	2,006	7.7
Total	**27,659**	**100.0**	25,796	100.0

(a) The amount includes outstanding overdrafts in current accounts and outstanding loans in arrears.

Following is a distribution of the overall credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by individual borrower's indebtedness (in Israel, excluding housing loans)

		December 31			
Credit risk amount in NIS thousands		**2021**		2020	
From	To	In NIS million	% of portfolio	In NIS million	% of portfolio
-	25	**6,122**	**15.2**	5,294	12.3
25	50	**5,957**	**14.8**	6,637	15.4
50	75	**5,078**	**12.7**	6,049	14.0
75	100	**4,058**	**10.1**	5,206	12.1
100	150	**6,337**	**15.8**	7,511	17.4
150	200	**4,469**	**11.2**	5,038	11.7
200	300	**4,482**	**11.2**	4,226	9.8
Over 300		**3,618**	**9.0**	3,147	7.3
Total overall credit risk		**40,121**	**100.0**	43,108	100.0

Following is a distribution of the overall credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by main credit products (in Israel, excluding housing loans)

	December 31			
	2021		2020	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Current account balances and utilized credit card balances	**5,782**	**14.4**	5,367	12.4
Car purchase loans (secured)	**1,305**	**3.3**	1,201	2.8
Other loans	**20,572**	**51.3**	19,228	44.6
Total on-balance-sheet credit risk	**27,659**	**69.0**	25,796	59.8
Unutilized current account credit facilities	**6,948**	**17.3**	6,883	16.0
Unutilized credit card facilities	**5,265**	**13.1**	10,166	23.6
Other off-balance-sheet credit risk	**249**	**0.6**	263	0.6
Total off-balance-sheet credit risk	**12,462**	**31.0**	17,312	40.2
Total overall credit risk	**40,121**	**100.0**	43,108	100.0

The decrease stems primarily from measures taken by the Bank to reduce unutilized credit facilities in accordance with the Ordinance for Increasing Competition and Reducing Concentration in the Banking Industry in Israel for Minimizing Market Centralization and Promoting Economic Competition (Legal Amendments) - Change of Rate and Amounts of Credit Facilities in accordance with Section 9(c) to the Law (Temporary Order), 2020 (hereinafter - the "Ordinance"), pursuant to the provisions of the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 (hereinafter: the "Law"). The measure to reduce unutilized credit card facilities under the Ordinance and Law applies to all Bank customers rather than only to private individuals.

Following on the Banking System Laws and Regulations section in the Corporate Governance Report as at December 31 2021 and December 31 2020, it should be noted that the Bank took measures to reduce the credit facilities based, inter alia, on professional opinions, and took several actions aimed at supporting and addressing the reduction measures, including: providing adequate training to Bank branches, monitoring credit facility utilization rates, etc. The Bank took two additional reduction measures in December 2021 and January 2022.

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by linkage segment and interest track (in Israel, excluding housing loans)

	December 31 2021				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	**26,245**	**37**	**64**	**26,346**	**95.3**
Fixed interest loans	**1,282**	**16**	**15**	**1,313**	**4.7**
Total on-balance-sheet credit risk	**27,527**	**53**	**79**	**27,659**	**100.0**

	December 31 2020				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS millions				In %
Variable interest loans	24,325	39	55	24,419	94.7
Fixed interest loans	1,342	22	13	1,377	5.3
Total on-balance-sheet credit risk	25,667	61	68	25,796	100.0

Balances of financial assets portfolio of private individuals with the Bank, with an overall credit risk (in Israel, excluding housing loans)

	December 31	
	2021	2020
	In NIS millions	
Deposits by the public	**96,857**	96,437
Securities portfolios	**58,478**	51,625
Total financial asset portfolio	**155,335**	148,062
Total indebtedness to customers with financial asset portfolios	**30,493**	34,141

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by fixed income amount[a] (in Israel, excluding housing loans)

	December 31			
	2021		2020	
Level of income	In NIS million	In %	In NIS million	In %
Accounts without fixed income	**2,586**	**9.4**	2,127	8.2
Of which: loan accounts[b]	**1,732**	**6.3**	1,515	5.9
Less than NIS 10 thousand	**6,891**	**24.9**	6,930	26.9
More than NIS 10 thousand and less than NIS 20 thousand	**9,628**	**34.8**	9,317	36.1
NIS 20 thousand or more	**8,554**	**30.9**	7,422	28.8
Total	**27,659**	**100.0**	25,796	100.0

(a) The fixed income amount deposited in a customer's current account (by ID number) includes the fixed credits to the customer's account, such as salary, transfers from another bank or bank account, cash deposits, checks, etc. The fixed monthly income is calculated according to the average income on several consecutive months, net of exceptional credits.

(b) A loan account is an account whose only purpose is to repay a loan, while most of the customer's current account activity takes place in another bank.

As aforesaid, the Bank's credit policy towards private individuals is based on a borrower's repayment capacity in relation to his/her income. As a result, over 90 percent of on-balance-sheet credit is from fixed-income earners.

Distribution of the on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals (in Israel, excluding housing loans)

	December 31	
	2021	2020
	In NIS million	
Non-troubled loans	**27,022**	25,156
Troubled unimpaired loans	**267**	304
Troubled impaired loans	**370**	336
Total on-balance-sheet credit risk	**27,659**	25,796
Percentage of troubled credit risk out of total debt to private individuals	**2.3%**	2.5%
Charge-offs, net (for the year ended)	**19**	136
Balance of loan loss provision	**716**	776

For more information, including regarding troubled debt and loan loss expenses, please see Note 13, Note 30, and the section entitled "Risk Exposure", "Credit Risk", under the "Bank's overall credit risk to the public by economic sector" and in the Credit Risks section in the Report of the Board of Directors and Management as at December 31 2021.

Proper Conduct of Banking Business Directive regarding management of consumer credit

On February 4 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 311A, Management of Consumer Credit.

The directive concentrates the requirements imposed by the Banking Supervision Department on the banking system in respect of retail customers.

For more information, please see Laws and Regulations Governing the Banking System in the Annual Report as at December 31 2021.

The Bank's Exposure to Leveraged Loans

According to Proper Conduct of Banking Business Directive No. 311, the Bank's credit policy should also address leveraged financing. The Bank's credit policy for this segment is subject to unique principles, including with respect to financial criteria, credit authorizations, etc.

As of December 31 2021, leveraged finance is defined by the Bank in line with the Bank of Israel's directives, and includes loans, borrowers or borrower groups which meet one of the following criteria (the gross indebtedness of each of which does not exceed 0.5 percent of the Bank's Tier 1 capital):

1. Credit for the purpose of equity transactions as defined for the restriction in Proper Conduct of Banking Business Directive No. 323, with credit for acquiring a means of control or against means of control held without recourse is included in each LTV ratio (even if it is lower than prescribed by the Directive).
2. Financing for holding companies the sole purpose of which is to hold subsidiaries (without significant independent operations), as defined by the Bank's policy.
3. Financing for borrowers, by various predefined economic sectors, characterized by significant unusual values of certain parameters in relation to the norms in their respective economic sector.

As of December 31 2021, the gross outstanding leveraged indebtedness, as defined by the Bank, stands at NIS 2.9 billion, a NIS 0.8 billion increased compared with the previous year. The Bank complies with the Bank of Israel's requirements.

Outstanding aggregated credit granted to leveraged borrowers

	December 31					
	2021			2020		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
Economic sector	In NIS millions					
Commerce	-	-	-	194	20	214
Transportation and storage	765	37	802	311	2	313
Hotels, accommodation and food services	557	122	679	629	9	638
Construction and real estate	107	380	487	427	17	444
Financial services and insurance services	244	101	345	67	150	217
Water supply, sewage services, waste and garbage treatment and purification services	265	-	265	280	-	280
Power generation, gas, steam and air conditioning	2	299	301	-	-	-
Total	1,940	939	2,879	1,908	198	2,106

For additional qualitative and quantitative information regarding credit risks, please see the Risk Management Report as at December 31 2021.

Market Risks

Market risk is defined as the risk of loss arising from a change in the value of assets and liabilities due to changes in market prices, interest rates, exchange rates, inflation rate and stock prices. Market risk exposure is reflected in the financial performance, in the fair value of the assets and liabilities, in shareholders' equity and in cash flows.

The Bank complies with the Banking Supervision Department's directives regarding management of the Group's market risks, including Proper Conduct of Banking Business Directive No. 333, "Interest Rate Risk Management", and No. 339, "Market Risk Management". To implement these directives, the Bank established basic principles and control mechanisms for these risks, including defining the purviews of management and the Board of Directors, the means of control and tools for measuring risk and the means of control as well as oversight of these risks, while implementing corporate governance which includes three lines of defense.

In 2021, there were no significant changes in the corporate governance structure, policies and market risk management.

Due to the spread of the coronavirus, there was an increase in the volatility level of risk factors in financial markets. The Federal Reserve has already begun to explain the principles of the interest normalization outline; this process may affect future trends in financial markets. Therefore, the high degree of uncertainty in the equity markets continues, and volatility may go on and even worsen.

The process of global recovery from the crisis focuses central banks on addressing economic challenges and issues other than those addressed at the height of the crisis. Some of the central banks, including the Bank of Israel, began to gradually wind down their quantitative easing and their intervention in the bond and interest markets.

The Bank tracks and monitors developments, applying stringent risk management practices, applying stress scenarios, and continuously examining the development of events and modes of operation in order to prepare in advance and adapt its activity as needed.

Market Risk Management Policy

The market risk management policy is an expression of the Group's market risk management strategy, alongside existing procedures for identifying, measuring, monitoring, developing and controlling market risk. The policy is designed, on the one hand, to support the achievement of business objectives while assessing the risks and rewards that may arise from exposure to the risks compared with the expected gains therefrom and, on the other hand, to mitigate the risk level arising from the Bank's ongoing activities, including by maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite for its own (nostro) account, trading rooms and market exposure across the entire Leumi Group. The policy outlines the corporate governance, division of organizational responsibilities and escalation mechanisms. The risk appetite is reflected in the established restrictions.

As part of the market risk management policy, the Board of Directors prescribed restrictions for each material market risk. In addition, restrictions were placed at the Chief Risk Officer level as well as additional restrictions complementing them. The purpose of the restrictions is to limit the damage that can be caused as a result of unexpected changes in various market risk factors, such as interest rates, inflation, exchange rates, marketable credit spreads and stock prices.

The market risks are routinely managed at the Group level. The foreign subsidiaries determine their own market risk management policies in line with the Group's policies and its approved risk frameworks as well as in line with the local regulation and business environment in which they operate. Information on the actual exposure status according to the established frameworks is reported by the subsidiaries and taken into account in the overall management of the Group's exposures.

Market risk management is performed in two risk centers – the banking portfolio and the held-for-trading portfolio.

In order to oversee and monitor the implementation of the market risk management policy, the Board of Directors receives, once every quarter, a report on the main market risk exposures vs. the restrictions placed and main risks by business line, product and risk center, as well as reports on unusual events.

For more information regarding activities by portfolio, please see the Risk Management Report as at December 31 2021.

Exposure to market risks arising from the employee pension liabilities

The Bank applies US GAAP to employee benefits, as prescribed by the Bank of Israel. The long average duration actuarial obligation to employees is significantly impacted by changes in the discount rate. The discount rate used for calculating the actuarial liabilities for employee benefits is based - according to the directives of the Bank of Israel - on the Government of Israel's bond yield curve plus the fixed spread curve of globally rated AA corporate bonds which match the average durations of the liabilities for employee benefits.

In 2016, the Bank received individual approval from the Bank of Israel, for capital adequacy measurement purposes, to discount the employee benefit liabilities according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's bond curve and by the U.S. AA corporate bond spread. The approval significantly moderated the volatility of the regulatory capital resulting from discount rate changes. The approval is valid until December 31 2024.

Against part of the actuarial liability, there is an investment in plan assets, which is designed to service that obligation, through investment in diversified assets such as equity securities and bonds. The investment is subject to regulatory restrictions and restrictions prescribed by the funds managing the plan assets.

Market Risks to which the Bank Is Exposed

A. Interest Rate Risk

Interest rate risk is the risk of gains or capital arising from interest rate fluctuations and stems from several sources, as follows: repricing risk (timing differences in terms to maturity and repricing dates of assets, off-balance-sheet liabilities and positions); yield curve risk (unexpected fluctuations in the yield curve); basis risk (less than perfect correlation between interest rate changes in various financial markets or in various instruments with similar repricing characteristics); and optionality risk (change in the timing or scope of cash flows from a financial instrument due to changes in market interest rates).

The Bank manages the interest rate risk and its effect on profitability, equity, assets and liabilities, under various assumptions of interest rate changes, including severe interest rate stress scenarios based on historic scenarios and hypothetical simulations. The Bank also uses a model which estimates the change in the expected finance income as a result of changes in the interest rate and future interest rate spread as well as the sensitivity of regulatory capital, which includes the effects on capital and capital reserve of a sudden change in the interest rate. These indicators are restricted by various hierarchical levels.

In effect, the interest rate risk is measured and managed on the basis of various behavioral assumptions regarding repayment dates of the assets and liabilities. According to past experience, the Bank treats some of the current account balances as a long-term liability. In addition, assumptions about early repayments of mortgages are based on a statistical model that attempts to forecast early repayment based on interest rates. Such estimates are of great significance in managing interest rate risks, inter alia, due to the marked increase in these balances in recent years.

The tools for managing the exposures in the banking portfolio are: the price policy; the management of the Bank's own bonds portfolio; the issue of debt instruments; off-balance sheet transactions, and more. In addition, the exposures management relies, inter alia, on forecasts and work assumptions regarding the expected developments in the money and capital markets in Israel and abroad.

Exposure to interest rate changes is measured both for an increase and decrease of interest in each linkage segment. The measurement is designed to test the sensitivity of the current value structure of assets and liabilities, including pension liabilities, to an interest rate change.

As a rule, interest rate sensitivity is measured at least once a month, with more frequent measurements being made for exposure management purposes.

For more information, please see the section entitled Interest Rate Risk, please see the Risk Management Report as at December 31 2021.

Discontinuation of LIBOR

In March 2021, the British Financial Conduct Authority (FCA) officially announced the discontinuation of all LIBOR as of the end of 2021, with the exception of the USD LIBOR, which will be discontinued in June of 2023.

On October 3 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 250A, "Transitioning from LIBOR". The directive outlines principles for implementing the transition from LIBOR to alternative base interest rates, in order to ensure proper preparation, while addressing the potential risks embodied in the transition. In addition, the directive addresses aspects of fairness and disclosure required vis-a-vis customers. The directive refers both to existing agreements and new ones.

When selecting the new interest base rates and adopting the alternative calculation methods, the Bank took into account the recommendations of the committees and work groups for the various currencies, including the International Swaps and Derivatives Association (ISDA) and fairness considerations. The Bank updated the relevant customers regarding the expected change, and posted it on its website. As of January 2022, the Bank is transitioning to the new base rates for each of the relevant currencies, and continues its preparations, inter alia, for the discontinuation of the USD LIBOR.

Material exposures

The transition to the new benchmark rates should have an effect on the value of various products, such as interest rate derivatives, bonds, credit, etc., and as a result – an effect on the profits of the banking corporation and its exposures. According to assessments made by the Bank, the Bank does not have a material on-balance sheet exposure in respect of LIBOR-based product contracts effective beyond 2021.

Following is a breakdown of outstanding balances of contracts at the Group level, as of December 31 2021, which are affected by the LIBOR interest, and transactions in respect of which, that will continue beyond the discontinuation of the LIBOR*:

	December 31 2021
	In NIS millions
Loans	**8,992**
Securities	**3,481**
Derivatives (gross) - par value	**71,224**

* LIBOR transactions which will continue in all currencies after December 2021, and in USD - after June 2023.

Main risks and the Bank's preparations for them

The discontinuation of the LIBOR and transition to new interest benchmarks affects the business of banking corporations in Israel and abroad and requires managing the risks arising from the transition, including legal, technological, business and behavioral risks.

The Bank identified the risks by mapping all the relevant contracts and exposures and implementing processes to identify the risks and their effects, proposing alternatives for risk mitigation and monitoring risks.

As part of the Bank's preparations, a steering committee was established to follow up on international publications, examine possible alternatives, update the legal and supportive technological infrastructure, communicate the matter to the Bank's customers and provide training to the Bank's employees. In addition, a periodic report was provided to management and the Board of Directors.

Quantitative information about interest rate risk - sensitivity analysis

Net adjusted fair value[(a)] of financial instruments of the Bank and its consolidated companies

	December 31					
	2021			2020		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	In NIS millions					
Adjusted net fair value[(a)]	**28,797**	**(815)**	**27,982**	24,016	(1,593)	22,423
Of which: banking portfolio	**27,762**	**(992)**	**26,770**	22,142	(1,879)	20,263

(a) Net fair value of the financial instruments, excluding non-monetary items and after the effect of the employee benefits liability, which takes into account the relating plan assets and attribution of demand deposits to periods.

For more information regarding the assumptions used to calculate the adjusted fair value of the financial instruments, please see Note 33A.

The effect of scenarios of interest rate changes on the net adjusted fair value[(a)] of the Bank and its consolidated companies

	December 31					
	2021			2020		
	NIS	Foreign currency	Total*	NIS	Foreign currency	Total*
	In NIS millions					
Simultaneous changes						
Simultaneous increase of 1%	**233**	**19**	**252**	224	(178)	46
Of which: banking portfolio	**331**	**(17)**	**314**	243	(129)	114
Simultaneous decrease of 1 percent	**(1,186)**	**(136)**	**(1,322)**	(606)	(8)	(614)
Of which: banking portfolio	**(1,290)**	**(131)**	**(1,421)**	(633)	47	(586)
Non-simultaneous changes						
Steepening[(b)]	**247**	**11**	**258**	162	(59)	103
Flattening[(c)]	**(259)**	**(175)**	**(434)**	(258)	(142)	(400)
Short-term interest rate increase	**26**	**(199)**	**(173)**	(35)	(193)	(228)
Short-term interest rate decrease	**(2)**	**211**	**209**	21	221	242

(a) Net fair value of the financial instruments, excluding non-monetary items and after the effect of the employee benefits liability, which takes into account the relating plan assets and attribution of demand deposits to periods.
(b) Steepening - a short-term decrease in the interest rate and long-term increase in the interest rate.
(c) Flattening - increase in interest rate in the short-term and decrease in the long-term.
* After netting effects.
Comment: The table presents the change in the net adjusted fair value of all the financial instruments, under the assumption that the noted change occurred for all interest rates in all linkage segments.

- The difference between the exposure to interest rate changes as reported in the above table and the one reflected in the detailed disclosure by period in the Risk Management Report as at December 31 2021 arises from the exposure to the interest rate in the above table being in a full change scenario of 1 percent in the curve, which is affected differently from models and the curve’s convexity.
- The difference between the interest rate exposure as reported in the above table and the economic value exposure presented in the Risk Management Report as at December 31 2021 stems from a different treatment of pension liabilities.
- The exposure of the fair value to a 1 percent interest rate decrease amounts to NIS 1.3 billion. During the past year, there was an increase in exposure to the interest rate decrease, which stems primarily for an update of the non-maturity deposit model and the mortgages early repayment model, as well as from the issue of bonds, offset by credit provision effect.

Effect of scenarios of interest rate changes on net interest income and on noninterest finance income

	December 31					
	2021			2020		
	Interest income	Non-interest finance income	Total*	Interest income	Non-interest finance income	Total*
	In NIS million					
Simultaneous changes						
Simultaneous increase of 1 percent	**1,092**	**191**	**1,283**	1,220	320	1,540
Of which: banking portfolio	**1,092**	**254**	**1,346**	1,171	395	1,566
Simultaneous decrease of 1 percent	**(1,464)**	**(154)**	**(1,618)**	(1,146)	(415)	(1,561)
Of which: banking portfolio	**(1,465)**	**(253)**	**(1,718)**	(1,197)	(397)	(1,594)

* After netting effects.

During 2021, the Group complied with all interest exposure restrictions set by the Board of Directors.

For more information, please see the Risk Management Report as at December 31 2021.

B. Basis Risk (Foreign Currency and CPI)

Linkage basis risk is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including in respect of future transactions in each of the linkage bases.

Leumi is active in currency markets through spot, forward and option transactions both for its customers and its own account. Transactions in derivatives in the banking portfolio are mainly used to financially hedge the on-balance sheet activity. These, however, are not considered a perfect hedge under accounting principles, and therefore affect the accounting profit and loss as a result of the difference in accounting for on-balance sheet assets and liabilities and derivatives. The effect is managed, monitored and reported to the Investment Committee and Assets and Liabilities Management committee.

The linkage basis exposure is managed according to the Board of Directors' restrictions.

The actual group-level economic exposure; the data are presented as a percentage of the accounting capital

	Actual situation	
	December 31	
	2021	2020
	In %	
Non-linked	**(36.9)**	(38.7)
CPI-linked[(a)]	**37.5**	37.4
Foreign currency	**(0.6)**	1.3

(a) The exposure does not account for the effect of index floors on the capital invested in the segment.

In 2021, the average percentage of capital invested in the CPI-linked segment was 43.5 percent; the rate fluctuated over the year between a surplus of 37.5 percent and 49.0 percent of the accounting capital. A relatively small percentage of capital was invested in the foreign currency segment; as a result, the effect of exchange rate changes on the profit is immaterial.

For quantitative information regarding balances in the linkage bases, please see Note 31.

The sensitivity to changes in the exchange rates of the main currencies as at December 31 2021. The measurement relates to the effect of the changes on the Bank's capital and includes the on-balance sheet and off-balance-sheet instrument activity

	USD	EUR	GBP	CHF	YEN
	In NIS millions				
10 percent increase in the exchange rate	**52**	**15**	**17**	**-**	**6**
10 percent decrease in the exchange rate	**41**	**(11)**	**(8)**	**-**	**(4)**

The sensitivity to changes in the CPI as at December 31 2021. The measurement relates to the effect of the changes on the Bank's capital and includes the on-balance sheet and off-balance-sheet instrument activity

	Effect of the changes on the Bank's capital
	In NIS millions
3% increase in the CPI	**469**
3% decrease in the CPI	**(474)**

C. Investment in Equity Securities and Mutual Funds

The Bank has defined the Group's investment policy, including restrictions both on the overall investment amount and the amount per company, the investment mix and the different risk levels for various types of investments.

Exposure of the investments in equity securities and mutual funds in the banking portfolio

	Book balance and fair value	
	December 31	
	2021	2020
	In NIS millions	
Marketable equity securities and mutual funds in the not held-for-trading portfolio	**2,601**	2,769
Non-marketable shares in the not held-for-trading portfolio	**1,743**	1,566
Total	**4,344**	4,335

For additional qualitative and quantitative information regarding the share price risk, please see under "Share Price Risk" in the Risk Management Report as at December 31 2021.

For additional qualitative and quantitative information regarding market risks, please see the Risk Management Report as at December 31 2021.

Liquidity and Financial Risk

Liquidity risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. The Leumi Group's liquidity risk management policy is part and parcel of its strategic business management and is adapted to the requirements of Proper Conduct of Banking Business Directive No. 342, Liquidity Risk Management, and the requirements of Proper Banking Management Directive No. 221, Liquidity Coverage Ratio, which adopts the recommendations of the Basel III Committee for calculating the minimum liquidity coverage ratio (LCR), with adjustments for the Israeli economy.

Proper Conduct of Banking Business Directive No. 221, Liquidity Coverage Ratio, stipulates that a bank shall have a sufficient inventory of high-quality liquid assets to meet the liquidity requirements for a time-horizon of 30 days, under a combined stress scenario presented in the Directive.

The Bank has a contingency plan in place for handling a liquidity crisis, which includes a system of warning signs that may indicate a shift in the Bank's liquidity position. On the appearance of warning signs, a special forum will convene to assess the situation and examine the need to activate the plan, based on the level of severity. The plan includes detailed operational measures outlining, among other things, the order of asset disposal, customer care policies, and systems of reporting to all business entities, the Board of Directors and the Bank of Israel.

Directive for calculating net stable funding ratio (NSFR)

Beginning on the financial statements as at December 31 2021, the Bank applies Directive No. 222, Net Stable Funding Ratio (NFSR) - which is based on a publication issued by the Basel Committee. Net Stable Funding Ratio is intended to improve the resilience of the liquidity risk profile of banking corporations in the long term by requiring them to maintain stable funding profiles according to their asset composition and off-balance-sheet activities. The ratio limits the banking corporations' dependence on short-term wholesale funding. The measurement - both in the consolidated and standalone financial statements, is conducted once every quarter; the requirement is to comply with a 100 percent ratio.

Leumi maintains an adequate liquidity level by investing its own (nostro) portfolio in high-quality diversified assets in NIS and foreign currencies, so as to meet all liquidity needs under a variety of stress scenarios, as well as through a policy of raising diversified and solid sources for different periods of time, with emphasis on raising deposits from retail customers and issuing long-maturity bonds.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by using a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel's directives and accepted international standards.

During the fourth quarter, the liquidity coverage ratio declined relative to its high level in the first quarters of 2021, mainly as a result of higher utilization than the increase in stable sources. In 2021, the LCR in foreign exchange and across all currencies was above the regulatory requirement.

The banking corporation's liquidity coverage ratio (regulatory model) is based on an average of daily observations.

Liquidity coverage ratio

	As at December 31	
	2021	2020
	In %	
a. Consolidated data		
Liquidity coverage ratio	**124**	137
Minimum liquidity coverage ratio required by the Banking Supervision Department[(a)]	**100**	100
b. Banking corporation's data		
Liquidity coverage ratio	**122**	136
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

(a) The Bank is examining the methodology of calculating the liquidity ratio; the Bank believes that applying a new methodology, if any, will leave the Bank with a higher liquidity ratio that the regulatory requirements. Due to the aforesaid, and in coordination with the Banking Supervision Department, the Bank set, at this stage, an internal liquidity coverage ratio of 115 percent that exceeds the minimum 100 percent liquidity coverage ratio required by the Banking Supervision Department.

Net stable funding ratio of the banking corporation

	As at December 31
	2021
	In %
a. Consolidated data	
Net stable funding ratio	131
Net stable funding ratio set by the Banking Supervision Department	100
b. Banking corporation's data	
Net stable funding ratio	131
Net stable funding ratio set by the Banking Supervision Department	100

The Bank complies with a regulatory requirement as at December 31 2021 and even did so for measurements made prior to the reporting requirement. The Bank set Net Stable Funding Ratio restrictions, in addition to the Liquidity Risk Management restrictions.

For additional qualitative and quantitative information regarding liquidity risk, please see under "Liquidity Risk" in the Risk Management Report as at December 31 2021, as well as Note 32.

Financing risk

Financing risk is the risk of an insufficiently stable financing source structure which fails to serve its designated utilization rate in the long term.

Over the years, the Bank has managed an extensive and diversified infrastructure of stable financing sources for various time periods. The Bank's main source of financing is deposits from retail customers. In addition, the Bank finances its activity through deposits made by commercial and business customers and by issuing notes payable. The sources are managed on an ongoing basis, separately for NIS and foreign currencies. About 30 percent of the deposits by the public are made in foreign currency. The Bank has a wide range of foreign currency sources from nonresidents, local retail, business and financial customers. In the past year, there was an increase in financial and non-financial foreign currency deposits. The excess deposits over foreign currency credit is invested in liquid assets and various terms swaps.
There was a moderate increase in shekel retail deposits during the first three quarters of 2021. This trend was discontinued in the fourth quarter of 2021. In 2021, there was a decrease in the amount of bonds, promissory notes and subordinated bonds by approx. NIS 1 billion, net.

The concentration of financing sources is managed and monitored using risk management indicators and models. The Bank performs follow-up on the composition and concentration of sources by several categories: Customer size and type, single depositor, deposit's life, typical behavior over time. The ongoing management of the sources' composition includes developing a policy for source diversification and financing periods. The concentration of the sources is controlled and managed by the Bank as part of its liquidity risk management. Ongoing daily measurement of the liquidity indicators, minimum coverage ratio, and monitoring of warning signs enable dynamic management and follow up to ensure that the sources are sufficiently diversified, and that the liquidity status and trends are adequately supervised and controlled.

For additional qualitative and quantitative information regarding financing risk, please see under "Additional Information on Liquidity Risk and Financing Risk" in the Risk Management Report as at December 31 2021.

Linkage Status, Repayment Periods and Liquidity Position

A. Linkage Status

Following is a summary of the linkage balances, according to Note 31 to the financial statements

	December 31					
	2021			2020		
	Non-linked	CPI-linked	Foreign currency[b]	Non-linked	CPI-linked	Foreign currency[b]
	In NIS million					
Total assets[a]	**456,231**	**54,144**	**186,271**	383,169	48,412	143,244
Total liabilities[a]	**436,652**	**37,868**	**188,324**	366,913	33,317	145,996
Surplus (deficit) of segment assets	**19,579**	**16,276**	**(2,053)[c]**	16,256	15,095	(2,752)[c]

(a) Including forward contracts and options.
(b) Including foreign currency-linked.
(c) The excess foreign currency liabilities stems mainly from an insurance coverage transaction against a tax exposure for investments in the Bank's foreign operations, investment in equity securities and mutual funds classified as a non-monetary item.

The ongoing management and reporting of the Bank's exposure to basis risks are made in line with the economic approach, which includes adjustments and additions to the accounting approach presented above. The basis exposure calculated according to the economic approach is detailed in the section entitled "Risk Exposure and Management Thereof".

In 2021, the deposits by the public grew by a total of NIS 89 billion (including subordinated bonds and capital notes). The loans to the public increased by NIS 48 billion; investments in bonds decreased by NIS 5 billion; deposits with banks, net, increased by a total of NIS 51 billion.

B. Repayment Periods

In 2021, the Bank was characterized by a high level of shekel liquidity, due to the increase in deposits by the public, and mainly as a result of the Bank's express policy to raise funds from stable and diverse resources, by raising deposits from a large number of customers for various time frames, including long-term. We note that, due to the low interest rate environment, we see an increase in the current account balances and in its share of total deposits by the public.

About 35 percent of the Bank's assets are deposited for short terms in banks and invested in marketable securities, especially government bonds.

In 2021, the Bank met all of the liquidity restrictions in the various scenarios, pursuant to the policy, which aims to secure resilience even under theoretical severe stress scenarios.

Following are the future cash flows of the assets and liabilities by repayment periods and linkage basis (including derivatives and excluding non-monetary items) (for more information, please see Note 32)

According to the directives of the Bank of Israel, cash flows for a liability with several repayment dates shall be classified according to management's assessment, at its discretion, or according to the earliest contractual payment date.

A banking corporation is required to present its cash flows for assets and liabilities separately for shekels (including shekels linked to foreign currencies) and foreign currencies. In addition, cash flows for net settled derivatives shall be classified into shekels or foreign currencies according to the currency in which it is settled. Off-balance-sheet amounts of these derivatives may not be reported.

Excess assets over liabilities*

	As at December 31 2021		
	NIS	Foreign currency	Total
Term to maturity:	In NIS millions		
Up to one month	(111,411)	(62,282)	(173,693)
From one month to 12 months	(3,827)	21,138	17,311
From one year to 5 years	74,363	22,381	96,744
5-10 years	54,335	5,869	60,204
Over 10 years	64,122	15,728	79,850
Without repayment date	1,035	1,463	2,498
Total	78,617	4,297	82,914

	As at December 31 2020		
	NIS	Foreign currency	Total
Term to maturity:	In NIS millions		
Up to one month	(109,059)	(69,243)	(178,302)
From one month to 12 months	(5,792)	24,045	18,253
From one year to 5 years	80,700	27,817	108,517
5-10 years	51,388	7,430	58,818
Over 10 years	50,938	13,627	64,565
Without repayment date	955	1,183	2,138
Total	69,130	4,859	73,989

* Less excess (deficit) in balances for derivatives.

For information regarding the description of the main policy highlights, means of supervision and implementation of the policy, as well as the restrictions normally employed in managing market risks - including the basis and liquidity risks - please see section entitled "Market Risks".

C. Liquidity Position and Raising Financial Sources

Liquidity position and raising financial sources from the Bank

In 2021, the liquidity surplus levels of the banking system in Israel grew. To absorb the surplus, the Bank of Israel conducts monetary tenders each day, week and liquidity period.

The increased liquidity surplus in the banking system stemmed mainly from aid programs offered by the government and the Bank of Israel due to the coronavirus crisis (purchases of government and corporate bonds, repo transactions with institutionals, granting long-term loans to the banking system in favor of granting loans to small businesses, increasing National Insurance allowances and aid grants to the private and business sectors). In addition, during 2021, the Bank of Israel purchased foreign currency valued approx. at USD 34.8 billion. This measure has also had an expansionary effect on the shekel liquidity surplus in the banking industry.

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity, as a result of a policy intended to raise funds from stable and diverse resources, with emphasis on raising resources from a large number of customers, diverse customer segments, for different time frames and in various currencies.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by using a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel's directives and accepted international standards.

The balances of the banking industry (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2021, was NIS 548 billion, compared with NIS 419 billion as at the end of December 2020.

Leumi's balances (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2021 was NIS 172 billion, compared with NIS 123 billion as at the end of December 2020.

The net balance of cash and deposits with banks as at December 31 2021 was NIS 172 billion, compared with NIS 121 billion as at the end of December 2020.

In addition, the Bank has a securities portfolio valued at NIS 83 billion, which is invested primarily in Israeli government bonds, foreign government bonds and bonds of foreign-based banks, compared with a balance of NIS 88 billion as at December 31 2020.

During the reporting period, the customers' off-balance-sheet monetary assets were up by NIS 214 billion, amounting to a total of NIS 1,057 billion.

The deposit balances of the three largest depositor groups totaled NIS 51,664 million as at December 31 2021.

Main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israeli and foreign operations are as follows

1. The Bank of Israel does not restrict the Bank's deposits with the Group's subsidiaries in Israel and abroad, but has imposed restrictions on the Bank's capital investments and bonds in foreign companies abroad. Any increase in investment or a decrease in holding any type of means of control to less than 80 percent requires prior approval by the Bank of Israel.

2. The US subsidiary - The US authorities restrict local banks from any type and extent of exposure to related companies. The maximum allowed exposure rate to a related company is 10 percent of the Bank's equity capital in the United States, and the US subsidiary's maximum allowed exposure to the Group is 20 percent of its equity capital.

3. The UK subsidiary (BLUK) - The UK authorities restrict local banks from any type and extent of exposure to related companies. BLUK's maximum rate of exposure to the Group's companies (excluding Bank Leumi of Israel Ltd.) is 25 percent of the UK Bank's equity. Under a waiver issued by the British regulator, the UK subsidiary may increase its exposure to Bank Leumi of Israel Ltd. to 100 percent of the Bank's equity capital in the UK. Provided the organization change in the UK office is completed, as outlined in the section entitled Main Investee Companies, this restriction will not longer apply.

Operational Risks

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

The Leumi Group engages in a wide range of financial activities and is therefore exposed to operational risks which include, inter alia: Information security and cyber risks, technological risk, business continuity risk as well as embezzlement and fraud risks.

The risk management approach is consistent with the Leumi Group's strategy, constitutes a basis for defining its risk tolerance, the manner of managing risk and corporate governance and determining the focus and emphases in operational risk management processes, allowing for informed and well-focused risk management as well as prioritizing tasks and resources.

The regulatory capital required for operational risks is calculated using the standardized approach in the capital adequacy measurement directives of the Banking Supervision Department.

To mitigate potential damage in the event of risks materializing, the Leumi Group has a range of insurance policies covering various operational risks, including, inter alia, a banking insurance policy, a directors' insurance and officer insurance policy as well as a cyber insurance policy. The insurance policies are reviewed from time to time.

In the wake of coronavirus crisis, adjustments were made to the work and control procedures, which were examined by all relevant functions, including: Business Continuity, business functions, Risk Management, Information Security, Compliance and Legal Counsel.

Corporate governance structure

In addition to information about the corporate governance structure of risk management in the Bank, which is described in the section entitled "Additional Information about Risk Exposure and Assessment Thereof", following is more information regarding operational risk management:

First line of defense - The business lines' managements, support units and Leumi Technologies are responsible for managing the operational risks in their respective purviews, both on an ongoing basis and for new projects and products.

Second line of defense - the Operational, IT and Cybersecurity Risk Department in the Risk Management Division is responsible for, and leads, the operational risk management process, while developing risk policy and risk tolerance recommendations, formulating methodologies, as well as professional responsibility for, guidance of and challenging of (subject to materiality) the first line of defense in the risk management process.

Third line of defense - Internal Audit. The Internal Audit Division is responsible for conducting an independent, objective audit and for challenging controls, processes and automated systems in the banking corporation. The audit is usually performed retrospectively on the first and second lines, ensuring implementation of the guidance of management and the Board of Directors.

Management and board of directors' committees - Each quarter, the committees hold a discussion on the material exposures to operational risks. The operational risk management policy is brought before the Board of Directors for discussion and approval each year.

The operational risk policy and management framework

The Group's operational risk management policy outlines Leumi's operational risk management principles, guidelines and framework, including: Risk-oriented management adapted to each business line and a focus on risks with potentially significant consequences for the Bank's activity.

To allow the Board of Directors and management to exercise appropriate corporate governance, operational risk tolerance was defined through quantitative restrictions and qualitative declarations.

The operational risk profile is periodically monitored and reported on a quarterly basis to the Bank's management and Board of Directors, serving as a basis for decision-making.

The Bank revises the operational risk map from time to time. The revision is made by the first line units, with the Risk Management Division providing guidance, challenging, and assistance. The process includes identification and (qualitative and quantitative) assessment of the risks and recommendations for minimizing the risks (risk mitigation plans). In addition, there is a system in place supporting risk reporting, documentation of controls, mitigation plans and failure events.

The Bank manages risks in material new projects and products on the basis of a methodology which includes risk identification and mitigation with the aim of complying with Leumi's business and operating goals.

Since the operational risks are cross-organizational, the Risk Management Division is taking steps to instill an advanced risk management culture, including reporting on incidents and drawing conclusions.

During the second quarter of 2021, it was decided to separate the cyber risk assessment from the traditional operational risk assessment, inter alia due to the uniqueness of the risk and its implications. For more information, please see under “Defining risk factors’ severity” in this report.

Main operational risk areas:

Information security and cyber risk

Leumi continues to promote the provision of financial services through digital platforms and expands the use of advanced technologies. As a result, the risk of cyber-attacks is growing, and Leumi’s exposure to the materialization of cyber risks grows, respectively.

Cyber-space is highly dynamic and characterized by uncertainty in terms of the type, scope and force of the attacks. A materialization of a cyber event may result in monetary damage, theft of sensitive banking information, disruption of activity and operational continuity and even damage to the Bank’s reputation.

Managing cyber risk and protection are implemented by investing significant resources. The resources are invested according to the business strategy and risk tolerance.

As part of the efforts to reinforce cyber protection and manage cyber risk, Leumi developed a policy and tolerance, drew up a cyber risk map, implements mitigating programs and recovery capabilities and conducts cyber drills.

Leumi operates Fusion Center - a cyber protection center, which features a range of cyber security specialists who monitor, collect and manage intelligence and handle cyber incidents, with the purpose of identifying and neutralizing unusual incidents which may harm the Bank and its customers.

Life along the coronavirus has led to a significant increase in cyber attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains. The characteristics of the attacks are varied and include ransomware attacks, an increase in phishing and social engineering attempts. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and extensive transitioning to remote work by employees and suppliers.

Leumi takes several steps to mitigate the risks, including: implementing preventive and detective controls, conducting information security surveys, boosting monitoring to remove fictitious websites, rendering authorization management and control processes more stringent, and increasing awareness to information security guidance among the employees.

In the reporting period, no cyber incidents were discovered which affected Leumi's financial statements.

Technological risk

As a champion and leader of technological innovation, which provides its customers with advanced services across all channels, including digital ones, according their needs, the Bank requires technologically advanced, robust infrastructures. These infrastructures create business opportunities, while on the other hand, raise the level of exposure to technology risks in the business and operating processes.

Leumi attributes great importance to ensuring that the technological infrastructure servicing its customers and employees will enable business and operational availability and continuity, and invests considerable resources to that end. The Bank implements a new product policy, which outlines the risk management processes involved in introducing new products, including new technological initiatives and innovation.

Leumi began to implement a business-technological (modernization) plan to achieve its business goals in the coming years. The plan is subject to stringent corporate governance.

Business continuity risk

Leumi manages and implements processes with the purpose of allowing quick recovery in case of emergency and stress events, while minimizing the damage to the business activity. The processes include the following:

- A business continuity policy that defines corporate governance, principles, and the key principles and processes in case of an emergency, including a set of responses and redundancy.
- A work framework that includes business continuity plans, business impact analysis based on risk surveys, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, recovery capabilities, including backup and recovery.

An emergency preparedness plan has been developed an implemented for two types of events - a brief emergency event and a prolonged emergency event. The policy, means, processes and solutions were adjusted to a wide range of scenarios, including a prolonged emergency event. A redundancy solution was defined, including resource redundancy (defining critical units and classifying employees for emergencies or prolonged emergency situations; training employees on versatility and back-up); physical redundancy; defining back-up facilities for critical units and technological redundancy: expanding infrastructure for emergency work and telecommuting.

To reinforce the technological function’s functional redundancy, the Tel Aviv computing center was transferred to Jerusalem, in addition to the Leumi Service Campus located in Lod.

Outsourcing and supplier risk

Leumi contracts suppliers and sub-suppliers for various business needs and adopts new products and services developed by external entities. Its dependence on suppliers exposes the Bank to various risks, including business continuity, disruption and information leakage. Such risks are managed on an ongoing basis through risk management and a new product, procurement processes, information security, business continuity and cyber security workflows and anchored accordingly in policy papers and procedures.

An outsourcing policy was formulated and approved, addressing third party risk issues as part of the operational risk policy.

Embezzlement

The effect of the coronavirus crisis on the work processes at the Bank, especially telecommuting, may increase the risk of embezzlement.

To address the risk, the Bank works to increase awareness among all Bank employees, with emphasis on risk managers and heightened monitoring of employees on the verge of leaving the Bank, a speakup mechanism which encourages employees to report breaches, etc.

A chapter was dedicated to managing fraud and embezzlement risks as part of the operational risk management policy and a special embezzlement forum was appointed to handle the issue.

Fraud

The expanded use of digital channels could increase exposure to embezzlement risks in terms of identity, money and information theft, as well as compromise functionality and cause customer information leaks and misuse of information. Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring.

The human resource risk

The changes in the business and banking environment, and the coronavirus crisis, have had a bank-wide effect of the human capital domain as well, inter alia due to the need to adjust the work force and boost managerial skills in a changing world, including managing telecommuting and employee engagement, as well as the growing demand for employees with technological skills. Leumi uses various means to handle risk, including: improving hiring capabilities, expanding hiring channels, knowledge conservation, as well as retention of employees with technological skills or unique business knowledge.

For more information about operational risk and main risk areas, please see the “Operational Risks” section in the Annual Risk Management Report as at December 31 2021.

Environmental Risk

Environmental and climate-related risks to the Bank are exposure to potential damage which may be caused as a result of events or processes related to the environment, including climate change.

Environmental risks arise from the Bank's exposure to activities which may potentially cause environmental damage or be effected therefrom, such as: greenhouse gas emissions, waste creation, air or water pollution, soil contamination, compromised biodiversity, deforestation and extreme weather events.
Environmental and climate-related risks are usually divided into two:

- Physical risks - arise from exposure to potential harm due to the scope and frequency of climate change, such as heat waves, floods, and rise in sea level. The materialization of this risk has a direct effect, inter alia, on the Bank's own activity and its business continuity capabilities, as well as on the activity of its customers and their investments.
- Transition risks - arise from the potential effect of changes and adjustments made in addressing climate-related risks and the efforts to mitigate them: such as policy changes, transitioning to low-carbon economy, adoption of environmentally-friendly technologies, technological changes, changes in market preferences, in the business environment, etc.
- The Bank is exposed to these risks both directly and indirectly:
- Direct damage may be incurred by the Bank in case, for example, of harm, due to environmental factors, to its physical infrastructure, that is critical to its business continuity. But even if the Bank is found to be responsible for an environmental hazard, including the possibility of the Bank being required to incur the costs of removing an environmental hazard or is found responsible for an environmental hazard towards a third party.
- Indirect damage may be caused due to harm to the Bank's customers, the value of its collateral or the value of its investment portfolio. Thus, for example, indirect damage may be caused to the Bank if it extended financing to a company and that company had endured damage due to environmental causes or caused environmental damage. The damage incurred by that company could compromise its repayment capacity, thus indirectly affecting the Bank's asset value.

The Bank may also be exposed to a reputational risk if an environmental hazard is attributed to the Bank, whether directly, as the one who created the hazard, or indirectly - for having financed the hazard.
Thus, environmental risks may have a financial and non-financial impact on the Bank, such as credit risk, market risk, operational risk, compliance risk, legal risk, regulatory risk, reputational risk, and liquidity risk.

In recent year, there is greater global awareness of potential exposure as a result of the materialization of environmental risks and climate-related risks. As a result, legislation in this respect has greatly expanded worldwide, and companies now take into account environmental criteria when making ongoing business decisions. In Israel too, legislation on the topic has expanded, but compared to Europe and the US, it is still in its initial stages.

As part of this trend, on December 5 2021, the Banking Supervision Department published a Reporting to the Public Directive regarding disclosure on environmental, social and governance (ESG) aspects, applicable as from the annual financial statements for 2021. Accordingly, below is a list of key quantitative ESG indicators, which affect the Bank's business strategy.
The Bank regards environmental and climate-related risks as an integral part of the Bank's targets, both in order to maintain its stability and due to its central role and importance to the Israeli economy and society; it also regards this as a business-strategic opportunity. According to the decision of the Board of Directors, the Bank is working to define and integrate corporate governance and a supportive operational model, as well as improve the management and measurement tools.

As part of the implementing the strategy, the Bank is working to identify and promote business opportunities, encourages "green" initiatives, is developing the tools and expertise to develop financing products for "green" activity and invest in smart systems in order to preserve and develop the current situation.

These opportunities include, inter alia:

- Providing business credit for “green” ventures and companies
- Investing in “green” through the nostro account
- Investing in “green” companies and projects by subsidiary Leumi Partners
- Developing trading capabilities in “green” contracts
- The Bank is evaluating additional opportunities, such as issuing “green” bonds

The Bank strives to reach a target of NIS 35 billion in such initiatives by 2030. This constitutes forward-looking information, the materialization of which is uncertain and not under the Bank’s sole control, taking into account that this is an “evolving” domain.
In addition, the Bank is developing “green” products and value propositions for retail customers and is examining how to support its business customers in “going green”.

The Bank has developed a multi-year work plan for managing environmental and climate-related risks in corporate governance aspects, and incorporating environmental and climate-related risks as an integral part of risk management in the Bank’s various activities, including identification and promotion of business opportunities. In the coming year, the Bank will focus on improving methodologies, measurement methods as well as quantitative and qualitative information to manage environmental and climate-related risks. In this context, special emphasis will be made on the business credit domain, due to it significant business and environmental materiality.
To implement the multiyear work plan, the Bank has engaged external consultants who specialize in the topic both on the local and global levels.

The Risk Management Division and the Strategy Department are responsible for handling the Bank’s environmental risks. Corporate social responsibility and community outreach are managed by the Human Resources Division.

As aforesaid, the Bank recognizes that the identification and assessment of the environmental risk is part of an adequate risk assessment process and is working to implement environmental risk exposure management, including climate risk (physical risk and transfer risk), as follows:

- Loan portfolio -
  - Promoting environmental credit - emphasis was made on incorporating indicators to identify environmental credit in business considerations in order to identify financing opportunities. To advance the Bank’s objective of boosting environmental credit, a long-term target was set for environmental financing for the various divisions.

- Credit risks management - The Bank is working to identify and map the environmental risks exposure, to manage and mitigate them, as far as possible, and to raise awareness among all those engaged in credit, of the possible adverse implications of environmental aspects - including climate aspects - on projects it provides credit to and on repayment capacity for various types of credit. The Bank regards the environmental risks exposure component - including climate risk - as part of all the relevant risks taken into account when reviewing credit and making credit decisions. The Bank is working to identify borrowers from economic sectors with high potential for credit risk exposure due to environmental factors when making specific credit-related decisions impacted by the manner in which the customer manages the risk and the nature of the to transaction. The objective is to identify the risks prior to their materialization, and to inform decision makers about them, as part of the credit risk assessment process and after monitoring the high-risk borrowers.
  In addition, in large credit transactions with potential for environmental pollution, at the Bank’s discretion, an environmental survey will also be conducted by an external company which specializes in identification and assessment of external environmental risk factors, in an effort to examine the environmental and climate-related aspect of the borrower’s activity, the transaction and meeting regulatory requirements.
- Investments - when making new investment decisions, environmental risks are also taken into account. The multiyear work plan to improve the methodologies and measurement tools for managing environmental and climate-related risks also include investments; the aim is to develop tools and expertise to promote environmentally-friendly measures and business opportunities.

- Operations –
  - The Bank regards maintaining a sustainable environment as highly important. To that end, the Bank has ISO 14001 certification, under which regulations related to environmental risks are managed and monitored, including an annual inspection by the Standards Institution of Israel.
  - Leumi has been voluntarily measuring and reporting its carbon footprint to the authorities and the public since 2011.

    From 2013 until now, the Bank's carbon footprint has cumulatively declined by 47 percent.
    In recent years, power consumption is down by an average of approximately 5 percent per year.
    In recent year, the use of hybrid vehicles in the Bank's car fleet has grown; today, about 55 percent are hybrid vehicles.

Environmental risk is an "evolving" risk. Evolving risks are characterized by lack of quantitative data of adequate historical depth for their estimate and by high variance compared to other risks over time; this requires well-structured processes to adjust their management and measurement tools.
The Bank is monitoring regulatory, technologies and company-based developments, studying them and adjusting the risk management tools and methodologies on an ongoing basis.

Society and corporate governance

The Leumi Group - one of Israel's largest banking groups, is publishing its ESG report for the 13th consecutive year, according to the GRI standards, undertaking to maintain data transparency towards its shareholders, customers and all other stakeholders. Every two years, the key economic, social and environmental challenges that are material to the Group's activity to its stakeholders are mapped, in order to maximize the Leumi Group's favorable impact and improve its environmental, social and governance performance.

The process is implemented by conducting an open discourse with all stakeholders, and the topics discussed form the basis for the corporate social responsibility work both in the short- and long-term.

The Leumi Group regards its human resource as the key engine of its success and attributes great importance to the satisfaction and professional and personal development of its employees. Under this approach, the Group acts to promote and maintain transparency, fairness, equal opportunity, employment diversity and avoidance of abusive employment, harassment and bullying at the workplace. Leumi views incidents of discrimination very seriously, and deals with them immediately and thoroughly.

As an organization working within the Israeli society, the Leumi Group continues to advance its social values vision by investment in the community, giving donations to and sponsoring social organizations, as well as volunteer work by the Group's employees. The Leumi Group's community involvement is reflected in ongoing investment, over many years, in tomorrow's generation. As of September 2019, the Bank's social policy is called "From Generation to Generation" and focuses on tomorrow's generation and on the third generation, as well as on connecting them.

Following are the main ESG targets, the materialization of which also depends on regulatory, technological and social developments:

	Objective	As at December 31 2021
The environment	The Bank strives to increase financing of and investment in projects or companies promoting a "greener" environment to NIS 35 billion by 2030	Approximately NIS 12.1 billion in credit has been earmarked to advance environmentally-friendly financing
	The Bank will consider issuing environmentally-friendly debt products ("green" bonds)	
	The Bank strives to reduce power consumption in the next five years by another 20 percent	From 2013 until now, the Bank's carbon footprint has cumulatively declined by 47 percent.
	The Bank strives to reduce transport fuel consumption in the next five years by another 20 percent, following our transition to hybrid vehicles and the availability of electric cars and hydrogen cars These actions will lead to reducing our carbon footprint by approximately 20 percent by 2027	In recent year, the use of hybrid vehicles in the Bank's car fleet has grown; today, about 55 percent are hybrid vehicles
Society	24 percent of new hires from under-represented populations by 2025. Expanding opportunities for under-represented populations, such as ultra-Orthodox women, during the technological job fair, including training. Appointing a hiring manager to be in charge of employment diversity and inclusion	As a bank which serves as a microcosmos of Israeli society in terms of employee mix, the aim of employment diversity has become part of Leumi's hiring policy in recent years. During 2021, Leumi implemented 2 significant hiring moves in the ultra-Orthodox society - for banking and technological roles In 2021, under-represented populations accounted for 18.7 percent of the workforce
Corporate governance	Maintaining at least 30 percent female representation rate and establishing a future policy	3 women represent 30 percent of the Board of Directors' plenum at Leumi

For more information, please see the ESG Report on the Banks website.

Some of the information in this section constitutes "forward-looking information". For the meaning of the term, please see under "Forward-Looking Information".

Other Risks

Regulatory Risk

Regulatory risk is the risk of legislative and regulatory changes affecting the income and expenses of the Group, its capital, areas of activity or the business environment in which it operates.

The Leumi Group operates in a complex and multi-dimensional environment. Continuous material changes in a variety of regulatory fields require adequate, ongoing preparations by the Bank.

Recently, the emphasis had been placed mainly on guidance in the following areas:

Directives regarding boosting competition in the financial sector, especially in the area of Open Banking, directives addressing conduct, risk management directives - especially environmental risk management, privacy protection and information security directives, as well as directives published on the back of the coronavirus and its implications.

For more information, please see Laws and Regulations Governing the Banking System.

The abovementioned trends and changes affect, and are expected to continue to affect, the Israeli banking system in the coming years. The Bank monitors and identifies relevant regulatory provisions, and examines its preparedness for the following: changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; the Bank’s costs compared to those of other entities; use of databases and information of the Bank’s customers by non-banking entities; and providing customers with tailored value propositions. At the same time, the regulation erodes income, increases compliance expenses and requires constant improvement of the service and innovation levels.

Compliance Risk

Compliance risk is the risk of a legal or regulatory sanction being imposed, or a material financial loss or a reputational damage incurred, by the banking corporation as a result of failing to comply with the provisions of the law or regulations.

Proper Conduct of Banking Business Directive No. 308, “Compliance and the Compliance Function in Banking Corporations”, formally defines the compliance function’s areas of responsibility at the Group level. The directive stipulates that a bank must assess the effectiveness of its compliance risk management, and find means to measure it, with the risk derived from the entire body of laws governing the Bank's activity.

According to the Bank's policy, compliance risk is managed at the Group level. In this context, various steps are taken to supervise and control foreign offices and subsidiaries in order to monitor implementation of compliance aspects as a whole and apply the Group's compliance policy. In view of the coronavirus crisis, compliance risk management has been modified, while identifying developing risks which characterize crisis periods.

To effectively manage compliance risk, Leumi has in place a compliance and enforcement function, headed by the Chief Compliance Officer. The latter is responsible, among other things, for meeting the legal requirements of the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer, the privacy protection officer, and the RO officer responsible for FATCA.

The Compliance and Enforcement Department reports to the Chief Risk Officer.

a. Prohibition on money laundering and prohibition on financing of terrorism

Maintaining proper compliance culture across the entire organization requires an effective control and enforcement framework. To this end, strict work procedures and control and enforcement processes have been established for all workflows and their relevant compliance risks. The purpose of the control and enforcement framework is, among other things, to identify existing and potential gaps and exposures in order to determine whether work processes and training programs should be revised.

The Compliance Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole as well as the implementation of the Group’s compliance policy.

Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, hedge funds, financial service providers, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in an evolving financial technology environment characterized by a lack of regulatory supervision along with professional complexity and a lack of practices incorporated into the control processes due to the novelty of the issues at hand.

b. Administrative enforcement

The Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was designed to streamline the enforcement of legislative provisions in the securities domain. The law allows the regulator to impose various sanctions on a corporation, its officers and employees if they have violated the relevant provisions.

The Group’s Chief Compliance Officer also serves as the Chief Compliance Enforcement Officer, responsible for the implementation of the internal enforcement program in the area of securities and investment management which was approved by the Bank’s Board of Directors. In 2018, the enforcement plan was revalidated by an external expert.

c. Foreign Account Tax Compliance Act (FATCA) - Common Reporting Standard (CRS) and the reported funds policy and Declared Money Policy (DMP)

On July 14 2016, the Income Tax Ordinance Amendment Law (No. 227), 2016 was published, on the implementation of the FATCA agreement between the State of Israel and the United States and agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information published by the OECD.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019, were published on February 6 2019. Pursuant to the regulations, the Bank is required to authenticate customers who are residents of foreign countries, and to report customers identified as residents of countries with which Israel has information exchange agreements to the Israel Tax Authority, which will forward the information to the competent authorities in the customers’ countries of residence.

The Bank reports to the Israel Tax Authority according to the provisions of the said law.

The Bank implements a Declared Money Policy (DMP) while ensuring that there are no funds managed by the Bank that are not reported to the relevant tax authorities; in this context, various measures were taken to locate and identify the relevant target audiences. If needed, customers are required to provide various statements and approvals.

For more information regarding a monetary sanction imposed by the Banking Supervision Department, please see Note 26D.

Legal Risk

Legal risk is defined as the risk of loss as a result of inability to enforce an agreement or as a result of contingent liabilities, including in respect of claims against, and demands from, the Bank. Legal risk also includes risks arising from legislation, regulations, court rulings and directives issued by authorities, risk emanating from activity that is not covered by adequate agreements, or from activity carried out without legal advice or under faulty legal advice, as well as a result of interpretation of the rights of parties under agreements between the Bank and its customers.

Legal risks arise from five main areas:

- Legislation risks - risks attributable to the Bank's activity in case such activity does not comply with a primary or secondary legal provision, a Bank of Israel directive or a directive issued by other competent authorities.
- Contractual risks - risks attributable to the Bank's activity with customers, suppliers and other parties with whom the Bank contracts, if the activity is not backed by an agreement that fully establishes the Bank's interests, or the agreement is not fully enforceable or includes illegal terms and conditions.
- Court ruling risks – risks arising from the Bank's activity if it does not comply with case law.
- Risks attributable to legal proceedings conducted against the Bank.

- Risks arising from changes in enforcement policy.

Legal risk policy and management framework

The Chief Legal Counsel, who is a member of the Bank's management and Head of the Legal Counsel Division, is responsible for leading legal risk management.

The Group implements a program for managing legal risk, which aims to identify, prevent, manage and mitigate legal risk. The program includes policy papers and an interface between the Legal Counsel Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The policy document has been revised periodically over the years, including in 2021.

The Group drew up a general policy paper, applicable to all subsidiaries, domestic and foreign, for managing legal risks, according to which each subsidiary prepared an internal procedure for managing legal risk in line with its activity and the Group's policy. The internal procedures have been approved by the Legal Counsel Division and by the subsidiaries' boards of directors. According to the policy papers, the subsidiaries are required to seek adequate legal advice for certain issues. In addition, the subsidiaries send periodic and immediate reports to the Bank's Legal Risk Manager, as required by the policy paper. The reports are sent in a uniform format prepared by the Legal Counsel Division. In 2021, the procedures for managing legal risk were refreshed and the legal risk stress scenario was challenged and revised.

In the context of the legal risk management program, the following points have been emphasized:

- Identifying and handling sources of material legal risks.
- Preventing and mitigating legal risk, inter alia, through:
  - Preparing adequate agreements, guidelines and procedures.
  - Reviewing statutory provisions (including case law) and regulatory directives, and their implications for the Bank.
  - Drawing conclusions on various topics and implementing the conclusions drawn in legal documents used by the Bank, as well as providing opinions on these topics to the relevant units in the Bank.

The parties responsible for executing the legal risk management program include various officials and committees within the Legal Counsel Division, headed by the Chief Legal Counsel - who also serves as Legal Risk Manager, special purpose factors and committees - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank.
In addition, the Legal Counsel Division identifies and handles, as needed, new regulation (primary legislation, secondary legislation, directives issued by authorities), as early as the proposed law or regulation formulation stage.

The activity of each of the abovementioned officials and committees is prescribed by internal work procedures of the Legal Counsel Division. The procedures stipulate, inter alia, the information interfaces between the various parties and the Division's management and legal risk team.

General legal exposure

There is a general legal exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services rendered by the Bank and the consolidated companies to their customers. The complexity of these services embodies, inter alia, a potential for claims, interpretative and other, relating to a long list of commercial and regulatory terms and conditions. It is impossible to foresee all of the types of claims which may be raised in this area and the exposure deriving from these and other claims in connection with the services provided by the Bank and its consolidated companies, which are filed, inter alia, in respect of motions to approve class actions suits.

There is also legal exposure due to regulatory changes and guidance issued by the Banking Supervision Department, the Israel Securities Authority and other regulators to which the Bank is subjected.

Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted on a regular basis according to the changing reality. All the above create an increased operating and legal exposure.

There is also a general legal exposure arising from complaints filed from time to time with the Banking Supervision Department against the Bank and the consolidated companies, which may, under certain circumstances, result in legal proceedings against the Bank. Currently, it is impossible to assess whether there is exposure in respect of such complaints and whether the Banking Supervision Department will issue an industry-wide decision about the complaints and/or whether class actions or other type of lawsuits will be brought as a result of such proceedings. It is therefore impossible to assess the potential exposure for the such complaints. As a result, no provision was made for the said exposure.

Reputational Risk

Reputational risk is the risk of compromising the trust of various stakeholders (such as customers, bondholders, shareholders, etc.) in the Leumi Group, as a result of conduct, an act, or an omission by the Group, officers in the Group, its employees or other involved parties.
Reputational risk refers to the perceptions of the shareholders, stakeholders, the public, influencers and the media, whether they are based on facts or otherwise. Reputational risk is dynamic and changes depending on various topics and populations.

The reputational risk management policy was approved by the Bank's management and Board of Directors with the approach that trust is vital to business activity. The policy defines the organizational structure and areas of responsibility supporting the management of reputational risk.

Strategic Risk

Strategic risk is the risk of harm to current and future financial resilience and a result of harmful business decisions, faulty implementation of business decisions or failure to respond to changes in the banking sector and operating environment.

The financial industry and banking sector are experiencing significant changes affecting strategic risk and requiring adjustment to the business model, including:

Entry of new players, such as BigTechs (Google, Amazon, Facebook, Apple), FinTechs, insurance companies, non-banking credit companies and digital banks, which often enjoy regulatory arbitrage compared to the regulation applicable to banks, as well as agile business systems.

Regulatory changes supporting encouragement of competition, such as the duty to reduce credit facilities, using the Central Credit Register, the Interbank Transition Law and Open Banking initiative. It should be noted that while the regulatory changes often restrict the banks' activity, in many cases they do not apply to competitors such as insurance companies, FinTechs and sizable tech companies, such as Apple and Google.

The coronavirus crisis had and still has an impact on the environment in which the Bank operates, from the macroeconomic, industry-specific, regulatory, human resource, consumer and technological aspects. The crisis has perpetuated the digital transformation trends in the banking system in recent years.

The Bank's strategic plan is for three years, and has been approved by management and the Board of Directors. The strategic plan is set following an extensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, in an effort to identify threats and opportunities. In addition, an annual refresher process is undertaken, in which the key external trends are examined, as well as their potential impact on Leumi. The strategic risk is managed by the Bank's Board of Directors and management, with the assistance of the Strategy, Digital, Data and Projects Division, which was established in September 2021 to deal with the abovementioned challenges.

Models Risk

Models risk is the risk of a loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model.

The models risk management policy was approved by the Bank's management and Board of Directors with the approach that the nature and quality of models are vital to ongoing business activity. The policy covers principles of model risk management, definition of corporate governance, officers and reporting hierarchies.
Under the policy, a multi-year risk-based work plan was developed to manage and mitigate model risks; the Bank continues to apply the risk mitigation work plan.
The Bank continues to monitor changes and adjustments made to models and their usage, in accordance with the development of the crisis and the need to revise them, including by way of back testing.

The Bank's strategy for transitioning to using digital tools and models-based processes increase the reliance on models in work processes. This trend increases the efficiency, transparency and objectivity of the processes, thereby mitigating conduct, service, credit underwriting risks but increasing models risks. The work plan to manage and monitor models risks has been adjusted to these heightened risks.

Conduct Risk

Conduct risk is the risk that the Bank's conduct will lead to an unwanted outcome for a customer due to inadequate service, inappropriate service or unfair conduct. The risk also includes inappropriate conduct affecting market integrity (the public's trust in the banking sector). The materialization of the risk may cause the Bank losses as a result of lawsuits (including class action lawsuits), sanctions or fines imposed (due to violating conduct-related provisions) and/or reputational damage.

The consumer-focused regulation trend continues, with emphasis on conduct. In this framework, emphasis is made on adapting the various financing products to customers' needs, while providing maximum disclosure and stressing transparent and fair conduct.

The Bank adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to champion proactive, innovative banking for its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of continuously upgrading them.

The Bank continues to promote the provision of financial services using digital platforms and models; the assumption is that this measure will, among its other advantages, mitigate the conduct risk.

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on international trade.
The coronavirus crisis still represents a significant global macroeconomic risk, the ramifications of the crisis for the global economy, and to a lesser extent on the domestic economy, as well as for the Bank's business, may be substantial. The crisis may leave multiple economies across the world with significant sovereign debts, a development which is liable to pose a future risk to the stability of financial markets. This constitutes severe harm to business activity of sensitive industries such as tourism, aviation, leisure, entertainment, food services, etc., as well as significant indirect impacts on a wide range of industries in the fields of commerce, services and non-residential real estate.

In addition to the coronavirus risk, there are risks arising from climate change and various geopolitical risks, including the current Ukranian-Russian crisis, which increase the potential for volatile global economic processes.

The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In this context, the Bank conducts uniform stress scenarios following a request by the Banking Supervision Department. In addition, ongoing monitoring and follow up of market developments are conducted in order to prepare in advance and adapt the activity, as needed.

Risk Profile - Defining Risk Factors' Severity

The methodology for classifying the severity of the exposures to various risks, as depicted in the risk factors' severity table below, is based on quantifying the effect of various scenarios being realized on the Group's capital, i.e. its stability. There are five levels of severity, with a highly severe risk defined as damage leading to a decrease of the capital adequacy ratio of CET1 capital under the risk appetite level (a CET1 capital ratio of 6.5 percent). The classification into other risk levels is made as a function of the potential damage to the Group's CET1 capital adequacy and a relevant subjective assessment. Factors affecting the assessments include various considerations, such as: Risk management processes, effect of interaction with other risks and changes in the external risk environment which can increase or decrease the severity of the risks beyond the quantitative damage to the Bank's capital. The subjective assessment also includes expert assessments by relevant functions in the Bank. In cases where a specific quantitative scenario does not adequately express the severity of a risk factor, greater weight will be given to a qualitative estimate.

In light of the above, it should be emphasized that the effect of the various risk factors varies among the banks, so extra care should be exercised in making various comparisons.

Some of the information in this section constitutes "forward-looking information". For the meaning of the term, please see under "Forward-Looking Information".

Table of risk factor severity

			Level of severity*	
	Risk	Definition	**2021**	2020
1	Overall credit risk	The Bank's risk of loss as a result of the possibility that a counterparty fails to meet its commitments towards the banking corporation. This relates to on-balance-sheet and off-balance-sheet credit risk.	Moderate	Moderate to high
1.1	Borrowers and collaterals quality risk	Risk for default by a borrower or counterparty which causes them to fail to meet their contractual financial obligations, such as default by a borrower or counterparty in derivatives and the residual risk for failure to realize a collateral.	Moderate	Moderate to high
1.2	Concentration risk of a large borrower or group of borrowers	The credit risk arises from the borrowers' relatively large portion of the Bank's loan portfolio.	Low	Low
1.3	Concentration risk per industry or segment***	The credit risk arises from concentration of loans to borrowers in certain economic sectors or segments.	Moderate	Moderate
2	Overall market risk	Risk of exposure of the Group's assets to changes in foreign exchange rates, inflation and asset prices, the correlation between them and their volatility.	Low to moderate	Low to moderate
2.1	Basis Risk	The risk arising from exchange rate fluctuations, including inflation (held-for-trading and banking portfolios).	Low	Low
2.2	Interest rate risk	The risk arising from interest rate fluctuations (held-for-trading and banking portfolios).	Low to moderate	Low to moderate
2.3	Interest spread and share price risk	The risk arising from fluctuations in share and bond prices in the commercial and banking portfolios for assets revalued to market prices.	Low to moderate	Low to moderate

	Risk	Definition	Level of severity* 2021	2020
3	Liquidity Risk	The risk arising due to the inability to withstand uncertainty as to the ability to raise funding and/or dispose of assets, unexpectedly and within a very short time, without incurring a substantial loss.	Low	Low
4	Pension Risk	Total risks related to various employee-related liabilities.	Low to moderate	Low to moderate
5	Operational risk*****	The risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.	Moderate	Moderate
5.1	Information security and cyber risk****	A risk arising from attack on the IT systems and/or IT infrastructure, which may result in information theft, in theft of financial assets (cash and cash equivalents) and/or disruption to the operational continuity (by disrupting information and/or compromising availability).	Moderate to high	Moderate to high
5.2	Technology risk	The risk of loss as a result of malfunctions and mechanical failures, as a result of processes for advancing and implementing technological innovation/innovative products and services and/or projects	Moderate	Moderate
6	Models risk****	The exposure to loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of: Using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model.	Moderate	
7	Legal and regulatory risk	Total risks included in the legal risk and regulation risk outlined in the report.	Moderate	Moderate
8	Compliance Risk	Risk arising from non-compliance with legal provisions and binding regulations.	Moderate	Moderate
9	Reputational Risk	The risk that negative publicity will reduce the customer base, cause a decline in income or liquidity or lead to high legal expenses.	Low to moderate	Low to moderate
10	Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.	Moderate	Moderate
11	Global systemic risk	Risks caused due to global external events which may bring about the materialization of several risks at once.	Moderate to high	Moderate to high
12	Local systemic risk	Risks resulting from local events which may lead to the materialization of several risks at once.	Moderate to high	Moderate to high

* In reference to a possible damage to the capital adequacy and subjective assessment of risks that are not easily quantifiable. The level of risk does not express the probability for its occurrence but rather the damage to the Bank if the scenario were to materialize.

** Overall credit risk and borrower and collateral quality risk - In the third quarter of 2021, the severity level of the overall credit risk and the severity of the borrower and collateral quality risk decreased from "moderate-high" to "moderate". As a result of the expansion of economic activity and improvement in the labor market, in addition to the time, knowledge and experience gained around the world, contributed to the reduced level of uncertainty as a result of the coronavirus crisis..

*** In 2021, Leumi actively expanded the development of its real estate portfolio. The increase in financing activity in the construction and real estate industries brought about growth in the real estate credit portfolio at Leumi, and was accompanied by a certain increase in LTV on the back of the growing competition in the market.

Real estate is defined by the Bank as being relatively less risky than other economic sectors, This is supported by the macroeconomic forecasts, financing method, stringent supervision and backing by property collateral.

The Bank estimates that this activity has no material effect on the Bank's overall real estate credit portfolio and therefore this risk is not assessed independently in the risk factor table.

**** Cyber risk and operational risk - During the second quarter of 2021, it was decided to separate the cyber risk and operational risk assessment due to the uniqueness of the risk and its implications. The cyber risk continues to be estimated as moderate to high and the operational risk is estimated as moderate, i.e. the operational risk is one level lower - from “moderate-high” to “moderate”, as a result of the stability of the operational environment, with emphasis on handling the coronavirus crisis.

***** Models risk - In recent years, the number of models used by the Bank is on the rise, as is the use of and reliance on models for significant business processes in the Bank. As a result, the Bank has decided to present the models risk in the table depicting an assessment of the risk factors’ severity. A moderate assessment is primarily due to the sensitivity of the risk management to the impact of external factors and current correlation to other risks.

Critical Accounting Policies and Estimates

Overview

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and directives of the Banking Supervision Department requires Management to use estimates and assessments which affect the reported amounts of assets and liabilities (including contingent liabilities) as well as income and expense amounts.

In most cases, the estimates and assessments are based on economic forecasts, assessments regarding different markets and past experience, while exercising discretion, and which Management believes to be reasonable at the time of preparing the financial statements. Some of these estimates and assessments embody a high level of uncertainty and may be affected by, or highly sensitive to, future changes, These estimates and assessment, the level of change in which may materially affect the Bank's financial results, are considered critical estimates and assessments.

The actual results of these line items may differ from the estimates and/or assessments.

Note 1 provides a detailed description of the accounting policy applied by the Leumi Group.

Set forth below is a condensed description of principal critical accounting issues which required management to make estimates and assumptions and which were discussed by the Board of Directors, management and the joint auditors:

Loan Loss Provision and Classification of Troubled Debts

Measurement and disclosure of impaired debts, credit risk and loan loss provision

Collective provision

The Bank has set procedures for a loan loss provision adequate to cover expected loan losses with respect to it credit portfolio, including with respect to off-balance sheet credit risk. The provision to cover expected loan losses with respect to the credit portfolio is assessed in two tracks: a collective provision and a specific provision; for more details, see Note 1.H.

The collective provision reflects an estimate of loan losses based on past losses for debts with similar characteristics, with adjustments made for current risk assessments. This loan loss provision is made for large groups of relatively small and homogenous debts and for specifically-assessed debts that were found to be unimpaired.

The method of determining the collective loan loss provision is in accordance with the requirements of the Reporting to the Public Directives, the main points of which are as follows:

- Loans to the public are broken down by economic sectors. For each economic sector, two rates of collective provisions are determined: One for non-troubled debts, and the other - higher - for troubled debts (debt classified as “special mention" or "substandard").
- These rates are based on past losses (the average of the net write-offs in the current year and in previous years, since 2011).
- The rate of past losses is added to the qualitative adjustment factor - an additional coefficient for provision due to environmental factors relevant to the prospects of collecting the credit (quality adjustments), such as: Sector-specific characteristics; the local economy’s characteristics; and the composition and quality of the loan portfolio. To calculate the qualitative adjustment factor, the Bank applies an internal formula which takes into account a wide range of indicators.

The provisions are calculated and made for all the debts - both on-balance sheet credit and off-balance-sheet credit instruments - with the off-balance-sheet credit multiplied by a conversion coefficient according to the type of instrument and in accordance with the directives of the Banking Supervision Department.

According to the Bank of Israel's guidance, the rate of adjustments in respect of environmental factors shall be no less than 0.75 percent of the outstanding non-troubled performing loans to private individuals as at that date and the rate of collective provision for housing loans shall be no less than 0.35 percent of the outstanding loans.

The Bank assesses the adequacy of the collective provision every quarter, based, among other things, on the assessment of the risks inherent in the loan portfolio and a forward-looking assessment, to the extent possible, of trends and developments in principal segments, while implementing the principles set in Proper Conduct of Banking Business Directive No. 314 "Adequate Assessment of Credit Risks and Adequate Measurement of Debts".

This assessment process to determine the collective loan loss provision rate became highly complex following the coronavirus crisis, which is a significant, ongoing event that disrupts business and economic activity. The coronavirus crisis is accompanied by substantial uncertainty in terms of its duration and impact; as a result, the Bank has materially increased its collective loan loss provision in 2020. The increase stems from a careful assessment, which takes into account a change in the risk characteristics of customers and various economic sectors, as well as economic assessments regarding the unemployment and rate and growth expected during 2021.

Due to the improvement in economic conditions, the knowledge and the knowledge and business experience accumulated, including the modes of operation arising from the crisis period, the Bank reduced some of the added provision recorded during 2020. However, due to the fact that the crisis is still present, with periodic surges that still affect the various segments, the uncertainty is still present during this period. Therefore, there may be significant deviations in estimates made to determine the outstanding loan loss provision as presented in the financial statements. These crisis estimates will continue to be tested by the Bank, subject to economic developments and their impact on the level of risk embodied in the portfolio.

For more information regarding the process of adjusting the loan loss estimates, please see the section entitled "Effect of the Coronavirus Crisis" under "Credit Risks".
For more information on the general application of accounting principles on loan losses, please see Note 1.Y.

Classification of troubled debts and specific provision

The Bank assesses the loan portfolio on an ongoing basis and in accordance with procedures in order to identify, as soon as possible, borrowers whose risk level and exposure increased and who require special supervision and close monitoring by management, either due to risk characteristics or as a result of economic/market conditions that might have an adverse effect on the borrowers, aiming to improve their condition. As to corporate customers, judgment is exercised by corporate department's employees dealing with the borrower in order to assess the extent of the problem, which is then assessed by the Credit Risk Management units of the Risk Management Division with the aim of making an objective assessment, to the extent possible, of the identified problems in order to determine the borrower's risk rating.

Retail Banking Division customers whose total indebtedness exceeds NIS 1 million are specifically identified and assessed by the Division in order to determine whether their debts should be classified as troubled debts. Other customers of the Division, with total indebtedness under NIS 1 million and who are homogeneous, are identified and handled in an automated manner according to preset criteria.

As part of its credit risk management activities, the Bank applies measures to identify troubled debts across each business line (in accordance with its unique characteristics) as early as possible. In the Corporate Division, the assessment is based, inter alia, on criteria which constitute red flags for troubled debts. Accordingly, if needed, the risk rating is updated and the debt is defined as sensitive. The Retail Banking Division identifies sensitive customers mainly in an automated manner, based on criteria predefined for this type of customers.

Customers identified as sensitive are reassessed each quarter, prior to the publication of the financial statements.

The methodology for dealing with troubled debts requires, among other things, a methodical assessment of the adequacy of the loan loss provision for debts classified as impaired. The provision is assessed according to the difference between the recorded outstanding debt and the present value of the future cash flows expected to service the debt from the customer's activity and the realization of collaterals and other assets, discounted at the effective interest rate of the debt. For debts the repayment of which relies on collaterals (collateral-contingent debts) and there are no other available and reliable sources of repayment, the provision is determined based on the fair value of the collateral less costs of disposal and after triggering buffers for the collateral's value so that it will be possible to realize the collateral and have the debt repaid therefrom. In this context, it should be noted that the Bank is implementing the requirements of the Bank of Israel, according to which debts are classified based on the debtor's repayment capacity; i.e. – the expected strength of the primary repayment source of the debt, despite support by secondary and tertiary repayment sources, such as collateral and guarantors.

Similarly, to examining the adequacy of the classifications, the adequacy of the provision is also examined on a quarterly basis, in accordance with the requirements of the Bank of Israel.

According to revised Proper Conduct of Banking Business directives, the Risk Management Division is responsible for setting appropriate classifications and allowances for credit losses. In addition to the discussions held by business divisions' managements and by representatives of the Risk Management Division, the Bank's Provisions Committee, headed by the President and CEO, holds quarterly discussions as to the aggregate amount of the provisions required for that quarter and the classification of specific provisions (in excess for a stipulated threshold amount).

Fair value measurements

The Bank implements the rules outlined in ASC 820, "Fair Value Measurement", which defines fair value and establishes a consistent work framework for measuring fair value by defining fair value estimate techniques for assets and liabilities, setting a fair value hierarchy and detailed application instructions. In addition, the Bank applies the directives of the Banking Supervision Department on the subject. The main items measured at fair value by the Bank in each period are available for sale bonds, held-for-trading securities, not held for trading equity securities for which there is an available fair value and derivatives.

Fair value is the amount/price that would be received to sell an asset or the price that would have been paid to transfer a liability in an orderly transaction between knowledgeable, willing parties at measurement date. Among other things, the provisions require to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect, as a rule, the banking corporation's assumptions.

ASC 820 outlines a hierarchy of measurement techniques based on the assertion whether the input used to determine the fair value are observable or non-observable. These types of inputs create a fair value hierarchy, as outlined below:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: quotes prices for similar assets or liabilities in active markets; quotes prices for identical assets or liabilities in non-active markets; prices derived from valuation models where all of the significant inputs are observable in the market or supported by observable market inputs.
- Level 3 inputs: unobservable inputs for the asset or liability.

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. As to fair value of foreign securities, most of the portfolio is calculated on a daily basis by a reputable international entity engaged in fair value measurement of financial assets for purposes of disclosure in financial statements. This entity is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets and on revaluation of similar transactions. The calculation reflects the price that a willing buyer would pay for securities based on current observable market inputs. Since only some of the securities are traded worldwide on a daily basis, the revaluing entity establishes its data for purposes of determining a price by applying a pricing algorithm to actual transactions and quotes from global and domestic banks, brokers and stock exchanges. If little or no market inputs are available, the revaluing entity uses sophisticated valuation models, taking into consideration the issuing entity's identity and the relevant industry.

Fair value of non-marketable bonds of Israeli companies is based on inputs received from Fair Spread Ltd. The Bank validated the model and verified the fair value to a reasonable degree of certainty.
Sometimes, for reasons of conservatism, when there are indicators justifying such adjustments, the Bank adjusts the model and/or market price in order to establish a more accurate fair value. As for derivatives, the Bank applies Topic 815 and the Banking Supervision Department's directives on the subject.

In particular, the Bank reflects the credit risk and nonperformance risk in the measurement of fair value of debt, including derivatives, issued by it and measured at fair value. The nonperformance risk includes the credit risk of the banking corporation, but is not limited to this risk only.

Specific guidelines were set as to the methodology and inputs to be used in the calculation of derivatives' fair value. The Bank calculates the credit risk provision at customer level, using a credit quality index, based on internal valuation models or market inputs.

For more information regarding the effect of the credit risk on derivatives, see Note 28B.C

For more information regarding determining fair value, see Note 1.G.

Impairment of securities

In each reporting period, the Bank assesses the need to record impairment losses for bonds in the available for sale portfolio and the held to maturity portfolio, which is other than temporary. According to the guidance of the Banking Supervision Department, as outlined in Appendix P to the Reporting to the Public Directives and FSP 115-2, Identification and Presentation of Impairments that Are other than Temporary, the criteria for determining whether impairment is other than temporary is based on a range of consideration and tests.

For more information regarding testing for impairment, please see Note 1.H

As of January 1 2022, new rules enter into effect regarding credit losses, which update the accounting treatment of credit losses attributable to bonds held to maturity and impairments for held for sale bonds.

For more information regarding adoption of revisions to accounting rules regarding expected provisions for loans losses and other directives, see Note 1.Y.

As for not held for trading equity securities for which no fair value is available, the Bank performs a qualitative test in order to determine whether the investment in shares has been impaired, and if needed, assesses the fair value of the investment in order to determine the impairment loss amount.

The assessments, considerations and tests in this process involve subjective judgement; therefore, changes in assumptions or assessments may materially affect the financial statements.

For more information regarding measurement of fair value, please see Note 1.G.

At each reporting period, the Bank assesses the need to record losses for other-than-temporary impairment of the bonds comprising the available-for-sale portfolio and the held-to-maturity portfolio, according to established criteria.

For more information regarding impairment testing, please see Note 1.I.

For more information, please see under "Structure and Development of Assets and Liabilities, Equity and Capital Adequacy", under "Securities".

Liabilities for Employee Benefits

Retirement and pension benefits are determined according to a classification of different employment periods at the Bank: Employees who began working at the Bank from January 1 1999 and have yet to receive permanent employee status as of the date of signing the special collective agreement in 2000 regarding the pension arrangement, make ongoing contributions to an external pension plan, for which the Bank has no pension liability, except for supplementary severance pay in some cases. Employees who began working at the Bank prior to January 1 1999 and have received permanent employee status by the signing of the agreement may choose, on reaching retirement age, to either receive severance pay and compensation from the Bank or a pension annuity, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees. For these employees, the Bank deposits contributions for pension and severance pay in the Bank employees' provident fund, which is managed by a management company held by the fund's planholders.

The Bank makes, from time to time, contributions for severance pay and pension which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a social security arrangement to a paying fund. The Bank also purchases, from time to time, an insurance policy for its retirees, at its own expense.

The calculation of the pension liabilities amounts is based on actuarial models. The discount rate used to calculate the actuarial liability for employee benefits is based on market yields under the directives of the Bank from among, according to which the yield curve is composed of yields of Israeli Government bonds plus a spread curve of AA-rated corporate bonds which match the average durations of the liabilities for employee rights.

Based on past experience, the actuarial calculations also take into account the forecasted nominal pay raises that change according to the employee's age.

Moreover, according to the public directives, the Bank estimates the expected long-term rate of return on plan assets by using historic rates of return over the long term in a portfolio with a similar asset composition.

Set forth below is a quantitative sensitivity analysis of the impact of principal assumptions on the calculation of the actuarial liability

A 1.0 percent decrease in the discount rate of the abovementioned liabilities will result in a NIS 3.5 billion increase in total liabilities. A 1.0 percent decrease in pay raise will result in a NIS 580 million decrease in total liabilities. A 5.0 percent increase in the life expectancy will result in a NIS 415 million increase in total liabilities. All amounts are stated before the tax effect.

The actuarial models include, inter alia, assumptions about: Life expectancy, departure rates, exit rates with preferential terms and conditions, percentage of utilizing retirement benefits and percentage of withdrawal of pension and severance pay, etc. Although the criteria have been set with adequate caution and professionalism, a change in any or several of the actuarial criteria and/or discount rate and/or pay raise rates will alter the Bank's liabilities amount.

The actuarial assessment of the employees' benefits is available on the Israel Securities Authority's website, at www.magna.isa.gov.il

As at December 31 2021, the balance of accumulated other comprehensive income for employee benefits amounted to a negative post-tax balance of NIS 3,478 million, compared to a negative post-tax reserve of NIS 3,734 million as at December 31 2020.

The outstanding balance of the liability for employee benefits as at December 31 2021, according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority’s approach") is NIS 980 million less than the actual outstanding balance of the liability.

Liabilities for Legal Claims

The Bank's liabilities also include provisions for various legal claims lodged against the Bank, including motions to approve class action suits. The provisions are determined based on management's estimates according to legal opinions.

The Bank's Provisions Committee, headed by the Company's President and CEO, and the Board of Directors' Audit Committee hold quarterly discussions on provisions for legal claims lodged against the Bank whose amounts exceed a certain threshold.

In order to assess the risks arising from legal claims lodged against the Bank, management relies on the opinion of external legal advisors representing the Bank in those legal claims.

These legal opinions are issued by the external legal advisors according to the best of their judgment, based on the facts presented to them by the Bank and based on the legal position (set out in law and case law) as known on assessment date, and which are quite often subject to interpretation and to potential conflicting arguments.

The assessment of the risks inherent in motions to approve legal claims as class actions is a complex process since this is a developing field and laws and case law relating thereto are still being established, even with regard to important aspects thereof. Furthermore, in view of the preliminary stage of some legal claims, the external legal advisors are unable to assess the risk arising therefrom.

In view of the above, the actual outcomes of the legal claims may be different than the provisions made in respect thereof.

Income Tax

Current and deferred taxes are carried to the income statement or directly to equity if they arise from items that are recorded directly in equity.

As from January 1 2017 the Group applies US GAAP to taxes on income pursuant to a circular published by the Banking Supervision Department on October 22 2015 on "Reporting by banking corporations in Israel according to US GAAP on the subject of taxes on income" and pursuant to a circular published on October 13 2016 on "Reporting by Banking Corporations Pursuant to US GAAP".

Current taxes

Current tax is the amount of income taxes payable (recoverable) for the taxable income for the tax year calculated at the applicable tax rates under tax laws that have been enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred taxes

Deferred taxes receivable/payable are recognized for temporary differences between the book value of assets and liabilities as reported in the financial statements and those taken into account for tax purposes. Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax assets for carryforward losses, tax benefits and deductible temporary differences are recognized in the books of accounts when it is more likely than not that the Group will have future taxable income against which it will be able to utilize its deferred tax assets.

Uncertain tax positions

The Bank applies the recognition and measurement rules prescribed by FIN 48 regarding uncertain tax positions; as a result, the Bank recognizes the effect of tax positions only if it more likely than not that the positions will be accepted by the tax authorities or court. Recognized tax positions are measured according to the maximum amount the materialization of which is more likely than note.

Controls and Procedures Regarding Financial Statements Disclosures

The directives of the Banking Supervision Department impose the requirements of Sections 302 and 404 of the SOX Act on banking corporations. The SEC and the Public Company Accounting Oversight Board have established provisions with regard to the abovementioned sections, on management's responsibility for instating and maintaining disclosure controls and procedures and for exercising internal control over financial reporting and the opinion of the independent auditors on the audit of internal controls over financial reporting.

The Banking Supervision Department’s directives require the following:

- Banking corporations shall apply Sections 302 and 404 and the SEC directives issued thereunder.
- Adequate internal control requires an auditing system that follows a predefined, recognized framework. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) meets these requirements and can be used to evaluate the internal controls.

The Bank regularly applies the directive to the Leumi Group.

During 2021, the Bank validated and updated material control processes and conducted effective evaluations of its entire system of internal control over financial reporting.

Evaluation of disclosure controls and procedures

The Bank's management, with the cooperation of the President and Chief Executive Officer and Head of the Finance Division and Chief Accountant, have evaluated the effectiveness of the Bank's disclosure controls and procedures as at the end of the reporting period. Based on this evaluation, the Bank’s President and Chief Executive Officer and the Head of the Finance Division and Chief Accountant have concluded that, as at the end of the reporting period, the Bank’s disclosure controls and procedures are effective for the purpose of recording, processing, summarizing and reporting the information the Bank is required to disclose in its financial statements, pursuant to the Banking Supervision Department’s Reporting to the Public Directives and as at the date prescribed by the Directives.

Internal control changes

In the quarter ended December 31 2021, no material change has occurred in the Bank’s internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

The Board of Directors

In 2021, Leumi's Board of Directors held 40 plenum meetings and its committees held 82 meetings.

At a meeting held on March 8 2022, the Board resolved to approve and publish the Group's condensed consolidated audited financial statements as at December 31 2021 and for the period then ended.

The Bank’s Board of Directors would like to express its appreciation and gratitude to the employees and managers of the Bank and the Group’s subsidiaries - both in Israel and overseas - for their dedicated work and contribution to the Group's business.

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Certification

I, Hanan Friedman, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi le-Israel B.M. (hereinafter - the “Bank") for 2021 (hereinafter - the “Report").

2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding “Report of the Board of Directors and Management"). In addition:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and said companies, especially during the preparation of the Financial Statements;

   B. We have established such internal control over financial reporting or have caused such internal control to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and guidance of the Banking Supervision Department;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   D. We have not found any change in the in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ Audit Committee, based on our most recent evaluation of the internal control over financial reporting, the following:

   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate and report financial information; and

   B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 8 2022

Hanan Friedman
President and Chief
Executive Officer

Certification

I, Omer Ziv, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi le-Israel B.M. (hereinafter - the "Bank") for 2021 (hereinafter - the "Report").

2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank's financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding "Report of the Board of Directors and Management"). In addition:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and said companies, especially during the preparation of the Financial Statements;

   B. We have established such internal control over financial reporting or have caused such internal control to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and guidance of the Banking Supervision Department;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   D. We have not found any change in the in the Bank's internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank's internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' committees, based on our most recent evaluation of the internal control over financial reporting, the following:

   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal control over financial reporting that are reasonably expected to harm the Bank's ability to record, process, calculate and report financial information; and

   B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 8 2022

Omer Ziv
First Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Report of the Board of Directors and Management regarding the Internal Control over Financial Reporting

The Board of Directors and management of Bank Leumi le-Israel B.M. are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directives regarding the "Reporting to the Public Directives and Management"). The Bank's internal control system was designed to provide a reasonable degree of assurance to the Bank's Board of Directors and management regarding adequate preparation and presentation of financial statements published in accordance with Generally Accepted Accounting Principles and the directives and guidance of the Banking Supervision Department. Regardless of the level of their design, all internal control systems have inherent limitations. As a result, even if it has been established that these systems are effective, they can provide only a reasonable degree of assurance regarding preparation and presentation of financial statements.

Management, under the Board of Directors' supervision, has in place a comprehensive system of controls designed to ensure that transactions are carried out in accordance with management's authorizations, that assets are protected and that the accounting entries are reliable. In addition, management, under the Board of Directors' supervision, takes steps to ensure that the information and communication channels are effective and monitors execution, including the execution of internal control procedures.

The Bank's management, under the Board of Directors' supervision, has assessed the effectiveness of the Bank's internal control over financial reporting as at December 31 2021, based on criteria established by the internal control model of the COSO (Committee of Sponsoring Organizations of the Treadway Commission).
Based on this assessment, management believes that, as at 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 at December 31 2021 was audited by the Bank's joint independent auditors - Brightman Almagor Zohar & Co. and Somekh Chaikin, as noted in their report, which included an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2021.

March 8 2022

Dr. Samer Haj Yehia
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Deloitte.

KPMG
Somekh Chaikin

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi le-Israel B.M, in accordance with the Reporting to the Public Directives of the Banking Supervision Department regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Leumi le-Israel B.M. and its subsidiaries (hereinafter, jointly - the "Bank") as at December 31, 2021, based on criteria established in Internal Control - Integrated Framework published by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) (hereinafter - "COSO"). The Bank's Board of Directors and management are responsible for the existence of effective internal control over financial reporting and for their assessment of the effectiveness of the internal control over the financial statements, which is included in the Report of the Board of Directors and Management regarding the Internal Control over the attached financial report. 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 Public Company Accounting Oversight Board (PCAOB) in the United States regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit so as to obtain a reasonable degree of assurance that effective internal control over financial reporting has been exercised, from all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department. A bank's internal control 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 assets of the Bank's assets (including their removal from its possession); (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department and that recipient and expenditure of the bank are being made only in accordance with the authorizations of the bank's Board of Directors and management; and (3) Provide reasonable assurance regarding prevention or timely detection disclosure of an unauthorized purchase, use or transfer (including removal from possession) of the bank's assets, which may 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 mentioned in all material respects, effective internal control over financial reporting as at December 31, 2021, based on criteria determined by the Internal Control - Integrated Framework published by the COSO.

We have also, in accordance with Israeli Generally Accepted Auditing standards and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department, audited the Bank's consolidated balance sheets as at December 31, 2021 and 2020 and the income statements, consolidated comprehensive income statements and the consolidated statement of changes in shareholders' equity and the consolidated statements of cash flows for each of the two years ended on December 31, 2021 and our report dated March 8 2022 included an unqualified opinion regarding these financial statements.

Joint Independent Auditors

March 8 2022

Brightman Almagor Zohar
A Firm in the Deloitte Global Network
Certified Public Accountants

Somekh Chaikin
A registered partnership in Israel and a partner firm in the global KPMG network, which is comprised of independent firms affiliated with KPMG International Limited, a privately-owned limited liability British company

Deloitte.

KPMG Somekh Chaikin

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi le-Israel B.M. - Annual Financial Statements

We have audited the attached consolidated balance sheets of Bank Leumi le-Israel B.M. and its consolidated companies (hereinafter - the "Bank") as at December 31 2021 and 2020 and the income statements, comprehensive income statements, statements of changes in shareholders' equity and the statements of cash flows - of the Bank and consolidated - for each of the two years ended on 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 of these financial statements based on our audit.

The consolidated financial statements of the Bank for the year ended December 31 2019 were audited by Somekh Chaikin and another independent auditor, whose report as at February 26, 2020 included an unqualified opinion.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those standards set forth in the regulations for Certified Public Accountants (Auditor Code of performance), 1973 and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department. Those standards require that we plan and perform the audit in order to obtain a reasonable assurance about whether the consolidated financial statements are free of material misstatement. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements Our audits also included evaluating the accounting principles used and significant estimates made by the Board of Directors and Management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

It is our opinion, based on our audit, that the above financial statements **present fairly**, in all material respects, the Bank's financial position as at December 31, 2021 and 2020 and the financial performance and changes in shareholders' equity and cash flows of the Bank for each of the two years in the period ended December 31, 2021, according to Israeli GAAP; in addition, in our opinion, authorized financial statements are prepared in accordance with the directives and guidance of the Banking Supervision Department.

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

Key audit matters

The key audit matters outlined below are the matters that have been communicated, or were required to be communicated, to the Board of Directors of the Bank and which, according to our professional judgment, were the most 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 judgment of which was challenging, subjective or especially complex, in accordance with the directives and guidance of the Banking Supervision Department. These matters were addressed in our audit and in formulating our opinion of the consolidated financial statements as a whole. The communication of these matters below does not alter our opinion of the consolidated financial statements as a whole and we do not provide therein a separate opinion on these matters or on the line items or disclosures to which they relate.

Loan loss provision

As described in Notes 1, 13, and 30 of the consolidated financial statements, the loan loss provision of the Bank is NIS 4,492 million as at December 31 2021 and includes specific provision and a collective provision (less the loan loss provision for housing loans).

The process of evaluating the loss embodied in the credit portfolio is based on significant estimates which involve uncertainty and on subjective assessments both at the identification and classification stages of the debts as troubled or performing debts, both at the stage of measuring the specific provision and the collective provision. Changes in these estimates or assessment may have a substantial effect on the loan loss provision presented in the Bank's financial statements.

Main estimates serving as the basis for calculating the loan loss provision:

When identifying and classifying the debts, judgment is exercised to identify troubled debts according to predefined criteria which may be evidence that a debt has become troubled, estimate of a possible or actual impairment of the primary repayment source of the borrower, the existence of an expected cash flow for the borrower to repay debt in its entirety and on time, as well as assessment of other financial data of the borrower which may be indicators of weaknesses or potential weaknesses of the borrower.

In calculating the specific provision, judgment is exercised regarding the expected future cash flows to serve the debt from the borrower's activity and from realizing collateral and guarantees.

When calculating the collective provision, judgment is exercised in estimating the provision embodied in the credit portfolio based on the average of past losses for various economic sectors and the required adjustments, based on criteria set by the Bank, which should reflect the changes in the credit portfolio due to macroeconomic factors as well as internal factors.

We have identified the estimates used as the basis for calculating the loan loss provision as a key audit matter.

Audit of the loan loss provision requires the independent auditor to exercise judgment, as well as knowledge and experience in order to examine the reasonableness of the assumptions and data used by management to estimate the provision.

The audit procedures used to address the key audit matter

Hereafter are the main procedures we have executed to address this key matter in our audit:

We have examined the process of calculating the provision and the planning, application and operating effectiveness of certain internal controls related to determining the provision estimate, including controls addressing the following matters:

- Establishing the methodology used to determine the provision
- Adequacy of the basic data used to calculate the provision
- Identifying debts with negative indicators
- Classification of debts according to the Bank's procedures
- Analyzing the reasonableness of the provision as a whole

We have executed substantive procedures to examine the provision based on internal and external representation we received.

These procedures included, inter alia:

- A review of the methodology used to determine the provision and examine whether it is consistent with the accounting principles applicable to the Bank and with the economic and regulatory environment of the Bank
- Examining the completeness and accuracy of the information and data used in the collective provision model
- Examining the adequacy of the classification for the sample of performing and troubled debts
- Examining the adequacy of the provision for impaired debts in respect of a sample of debts

Management's assumptions used for the actuarial calculation of the estimated liability for employee benefits

As outlined in Note 23 to the Financial Statements, the Bank presents a liability for severance pay and pension of employees according to an actuarial calculation based on significant estimates, including the expected rise in the CPI, discount rate and life expectancy, as well as on management's assumptions, including departure rates and rate of increase in compensation (hereinafter - "Management's Assumptions" or "Assumptions"). The liability for employee benefits totaled NIS 21,261 million as at December 31 2021.

We have identified Management's Assumptions used to calculate the liability for employee benefits (hereinafter - the "Liability") as a key audit matter.

In establishing these Assumptions, management exercises significant judgment and relies on past experience, current economic forecasts and management's expectations, in order to estimate the data of the Assumptions during the forecast period for which the Liability is calculated.

An audit of the Liability for severance pay and pension requires the auditor to exercise judgment in order to examine how management substantiated the Assumptions, as well as knowledge and expertise, in order to examine the adequacy of the Assumptions used for the actuarial calculation of the Liability.

The audit procedures used to address the key audit matter

Following are the main procedures we have executed to address this key matter in our audit:

We have examined the work procedures regarding determining Management's Assumptions and the planning, application and operating effectiveness of certain internal controls associated with substantiating Management's Assumptions and their implementation, including controls for the following matters:

- Assessing the methodology used to determine the Assumptions
- The underlying data used to determine the Assumptions
- Validation of the Assumptions
- Implementing the Assumptions in calculating the Liability for severance pay and pension

As part of our audit, we implemented substantive procedures to examine the reasonableness of Management's Assumptions based on internal and external representations we received. To implement the procedures, we engaged, inter alia, an expert actuary.

These procedures included, inter alia:

- Inquiring the Bank's actuary regarding material changes in the data, Assumptions and actuarial methods compared to the estimate for the previous year
- Carrying out sensitivity analyses for Management's Assumptions used as a basis for estimating the employee benefits Liability in order to assess the effect of changes in these assumptions on the Liability
- Assessing the reasonableness of Management's Assumptions according to past data and management's expectations about the future
- Examining the databases on which Management's Assumptions are based

Brightman Almagor Zohar
A Firm in the Deloitte Global Network
Certified Public Accountants
CPAs
Serving as independent auditors
of the Bank since 2020

Somekh Chaikin
A registered partnership in Israel and a
partner firm in the global KPMG network,
which is comprised of independent firms
affiliated with KPMG International Limited,
a privately-owned limited liability British
company
Serving as independent auditors
of the Bank since 1950

Joint Independent Auditors

March 8 2022

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES

Consolidated Income Statement

For the year ended December 31

	Note	2021	2020	2019
		In NIS millions		
Interest income	2	11,672	10,175	11,437
Interest expenses	2	1,326	1,452	2,596
Interest income, net	2	10,346	8,723	8,841
Loan loss (income) expenses	13, 30	(812)	2,552	609
Interest income, net after loan loss expenses		11,158	6,171	8,232
Noninterest income				
Noninterest finance income	3	1,714	1,026	1,686
Fees and commissions	4, 4A	3,506	3,281	3,225
Other income	5	291	59	170
Total noninterest income		5,511	4,366	5,081
Operating and other expenses				
Salaries and related expenses	6	4,242	3,742	4,325
Buildings and equipment - maintenance and depreciation[(a)]	16	1,535	1,602	1,580
Other expenses[(a)]	7	1,651	1,702	2,003
Total operating and other expenses		7,428	7,046	7,908
Profit before taxes		9,241	3,491	5,405
Provision for profit tax	8	3,275	1,356	1,830
Profit after taxes		5,966	2,135	3,575
The Bank's share in associates' profits (losses), net after tax	15	101	(13)	(15)
Net income				
Before attribution to non-controlling interests		6,067	2,122	3,560
Attributable to non-controlling interests		(39)	(20)	(38)
Attributable to the Bank's shareholders		6,028	2,102	3,522
Basic and diluted earnings per share (in NIS)				
Basic diluted earnings attributable to the Bank's shareholders	9	4.15	1.44	2.37

(a) Reclassified.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's standalone condensed financial statements, please see Note 35.

Dr. **Samer Haj Yehia**
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

Omer Ziv
First Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Date on which the financial statements were approved: March 8 2022

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Comprehensive Income
For the year ended December 31

	2021	2020	2019
	In NIS millions		
Net income before amount attributable to non-controlling interests	**6,067**	2,122	3,560
Less net income attributable to non-controlling interests	**39**	20	38
Net income attributable to the Bank's shareholders	**6,028**	2,102	3,522
Other comprehensive income (loss), before taxes:			
Adjustments in respect of presentation of available-for-sale bonds at fair value, net	**(438)**	814	1,468
Adjustments from translation of financial statements, net,[a] after the effect of hedges[b]	**(24)**	(46)	(65)
Net gains (losses) for cash flow hedges	**(40)**	43	(3)
Adjustments of liabilities for employee benefits[c]	**392**	336	(3,317)
The Bank's share in other comprehensive loss of associates	**(11)**	(5)	(5)
Other comprehensive income (loss), before taxes	**(121)**	1,142	(1,922)
Related tax effect	**4**	(460)	573
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(117)**	682	(1,349)
Net of other comprehensive loss attributable to non-controlling interests	**(32)**	(21)	(13)
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**(85)**	703	(1,336)
Comprehensive income before attribution to non-controlling interests	**5,950**	2,804	2,211
Net of other comprehensive income (loss) attributable to non-controlling interests	**7**	(1)	25
Comprehensive income attributable to the Bank's shareholders	**5,943**	2,805	2,186

(a) Adjustments from translation of the financial statements of a foreign operation the functional currency of which is different from the Bank’s functional currency.

(b) Hedges - net gains (losses) for hedging a net investment in foreign currency.

(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and deduction of amounts previously recorded in other comprehensive income. Please see also Note 23.

Please see also Note 10, under accumulated other comprehensive income.

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

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Balance Sheet
As at December 31

	Note	2021	2020
		In NIS millions	
Assets			
Cash and deposits with banks	11	197,402	136,194
Securities[(a)(b)]	12	86,927	92,297
Securities borrowed or purchased under reverse repurchase agreements		2,447	3,019
Loans to the public	13, 30	347,391	300,631
Loan loss provision	13, 30	(4,512)	(5,290)
Loans to the public, net		342,879	295,341
Loans to governments	14	940	632
Investments in associates	15	1,113	795
Buildings and equipment	16	2,720	2,932
Goodwill	17	14	15
Assets in respect of derivatives	28A, 28B	14,027	15,252
Other assets	18	7,985	9,558
Total assets		656,454	556,035
Liabilities and equity			
Deposits by the public	19	537,269	447,031
Deposits by banks	20	25,370	15,143
Deposits from governments		300	208
Securities loaned or sold under repurchase agreements		2,282	605
Bonds, promissory notes and subordinated bonds	21	15,428	16,303
Liabilities for derivatives	28A, 28B	15,551	17,315
Other liabilities[(a)(c)]	22, 30D	18,202	21,335
Total liabilities		614,402	517,940
Shareholders' equity	25A	41,610	37,664
Non-controlling interests		442	431
Total equity		42,052	38,095
Total liabilities and equity		656,454	556,035

(a) For additional information regarding amounts measured at fair value, please see Note 33A.
(b) For additional information on securities pledged to lenders, please see Note 12.
(c) Of which: A provision for loan losses for off-balance-sheet credit instruments of NIS 469 million (as at December 31 2020 - NIS 422 million).

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's standalone condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Statement of Changes in Equity
For the year ended December 31 2021

		Capital reserves	
	Share capital	Premium	Stock-based compensation and other transactions[a]
	In NIS millions		
Balance as at January 1 2019	7,081	1,087	58
Cumulative effect for first-time application of US GAAP[c]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(28)	(672)	-
Issuance of shares	1	6	(7)
Employee benefit for stock-based compensation transactions	-	-	2
Sale of equity of a consolidated company	-	-	-
Balance as at December 31 2019	7,054	421	53
Net income	-	-	-
Other comprehensive income, net of tax effect	-	-	-
Dividend paid by consolidated companies	-	-	-
Dividend paid	-	-	-
Share buyback	(13)	(237)	-
Employee benefit for stock-based compensation transactions	-	-	-
Balance as at December 31 2020	7,041	184	53
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid	-	-	-
Employee benefit for stock-based compensation transactions	-	-	-
Balance as at December 31 2021	**7,041**	**184**	**53**

(a) Including NIS 10 million in other capital reserves.

(b) Including NIS 5.656 million that are non-distributable as dividend, of which NIS 1.650 million in respect of share buyback (2020 - NIS 5,805 million, of which NIS 1,650 million for share buyback, 2019 - NIS 5,610 million, of which NIS 1,400 million for share buyback); the remaining distributable amount is subject to the Bank of Israel's directives and to the restrictions set out in the Proper Conduct of Banking Business Directives.

(c) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - "Financial Instruments", including updates thereof. Please see Note 1.X to the financial statements as at December 31 2019.

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

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings[(b)]	Total	Non-controlling interests	Total equity
8,226	(2,132)	29,211	35,305	856	36,161
-	(27)	27	-	-	-
-	-	3,522	3,522	38	3,560
-	(1,336)	-	(1,336)	(17)	(1,353)
-	-	-	-	(33)	(33)
-	-	(1,387)	(1,387)	-	(1,387)
(700)	-	-	(700)	-	(700)
-	-	-	-	-	-
2	-	-	2	2	4
-	-	-	-	(378)	(378)
7,528	(3,495)	31,373	35,406	468	35,874
-	-	2,102	2,102	20	2,122
-	703	-	703	(21)	682
-	-	-	-	(39)	(39)
-	-	(297)	(297)	-	(297)
(250)	-	-	(250)	-	(250)
-	-	-	-	3	3
7,278	(2,792)	33,178	37,664	431	38,095
-	**-**	**6,028**	**6,028**	**39**	**6,067**
-	**(85)**	**-**	**(85)**	**(32)**	**(117)**
-	**-**	**(1,997)**	**(1,997)**	**-**	**(1,997)**
-	**-**	**-**	**-**	**4**	**4**
7,278	**(2,877)**	**37,209**	**41,610**	**442**	**42,052**

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Cash Flow Statement
For the year ended December 31

	2021	2020	2019
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**6,067**	2,122	3,560
Adjustments:			
Group's share in net undistributed losses of associates[(a)]	**114**	26	47
Depreciation of buildings and equipment (including impairment)	**694**	678	600
Loan-loss expenses (income)	**(812)**	2,552	609
Gains on sale of loan portfolios	**-**	-	(15)
Net gains on sale of available-for-sale bonds	**(231)**	(410)	(191)
Net realized and unrealized losses (gains) from fair value adjustments of held-for-trading securities	**19**	(58)	(151)
Losses (gains) on sale of investees' equity	**-**	2	(287)
Losses (gains) on disposal of buildings and equipment - net	**(119)**	7	(68)
Provision for impairment of available-for-sale bonds	**-**	33	2
Realized and unrealized gains, net from fair value adjustments of equity securities not held-for-trading	**(881)**	(283)	(192)
Provision for impairment of equity securities not held-for-trading	**66**	66	39
Expenses for stock-based compensation transactions	**-**	-	2
Deferred taxes - net	**422**	(729)	(595)
Severance pay and pension – increase (decrease) in excess of provision over fund	**225**	(980)	(64)
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**379**	253	(146)
Accrual differences and rate in respect of bonds and subordinated bonds	**(41)**	(393)	(88)
Effect of exchange rate differentials on cash and cash equivalent balances	**557**	1,274	730
Other, net	**(4)**	-	59
Net change in current assets:			
Assets in respect of derivatives	**1,224**	(4,298)	1,775
Held-for-trading securities	**892**	(451)	3,390
Other assets	**442**	(1,917)	1,180
Net change in current liabilities:			
Liabilities for derivatives	**(1,516)**	5,684	(718)
Other liabilities	**(2,299)**	2,379	3,326
Net cash provided by operating activities	**5,198**	5,557	12,804

(a) Net of dividend received.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's standalone condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Cash Flow Statement (cont.)
For the year ended December 31

	2021	2020	2019
	In NIS millions		
Cash flows for investing activities			
Net change in deposits with banks with original maturities of more than three months	**292**	(1,113)	3,199
Net change in loans to the public[(a)]	**(47,480)**	(16,583)	(10,795)
Net change in loans to the Israeli Government	**(308)**	112	38
Net change in securities borrowed or purchased under reverse repurchase agreements	**572**	(1,902)	(80)
Purchase of held-to-maturity bonds	**(1,510)**	(3,026)	(2,048)
Proceeds from redemption of held-to-maturity bonds	**1,130**	1,402	647
Purchase of available-for-sale bonds and equity securities not held-for-trading	**(106,548)**	(136,675)	(83,884)
Proceeds from sale of available-for-sale bonds and equity securities not held-for-trading	**86,553**	99,757	41,423
Proceeds from redemption of available-for-sale bonds and equity securities not held-for-trading	**24,626**	32,700	31,789
Purchase of associates' equity	**(442)**	(67)	(377)
Proceeds from disposal of investment in associates	**-**	-	251
Proceeds from disposal of investment in previously-consolidated subsidiaries (Appendix B)	**-**	-	712
Proceeds from sale of loan portfolios	**217**	-	915
Purchase of buildings and equipment	**(543)**	(594)	(942)
Proceeds from disposal of buildings and equipment	**179**	11	107
Central severance pay fund	**(9)**	137	157
Net cash for investing activities	**(43,271)**	(25,841)	(18,888)
Cash flow from financing activities			
Net change in deposits by banks with original maturities of more than three months	**10,232**	9,012	1,067
Net change in deposits by the public	**91,073**	74,967	5,609
Net change in deposits by the government	**92**	(106)	(367)
Net change in securities loaned or sold under repurchase agreements	**1,673**	482	(198)
Proceeds from issue of bonds and subordinated bonds	**2,262**	4,986	3,152
Redemption of bonds and subordinated bonds	**(3,096)**	(8,248)	(958)
Dividend paid to shareholders	**(1,997)**	(297)	(1,387)
Dividend paid to external shareholders in consolidated companies	**-**	(39)	(33)
Share buyback	**-**	(250)	(700)
Net cash from financing activities	**100,239**	80,507	6,185
Increase (decrease) in cash and cash equivalents, including cash and cash equivalents classified as held-for-sale assets and liabilities[(b)]	**62,166**	60,223	101
Net of change in cash and cash equivalents classified as held-for-sale assets and liabilities[(b)]	**-**	-	(3)
Increase (decrease) in cash and cash equivalents	**62,166**	60,223	104
Balance of cash and cash equivalents at the beginning of the year	**132,616**	73,667	74,293
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(557)**	(1,274)	(730)
Balance of cash and cash equivalents at the end of the year	**194,225**	132,616	73,667

(a) Including operating activities from invoice factoring. Please see Note 30F.
(b) For additional information, please see Note 36F to the financial statements as at December 31 2018.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's standalone condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES

Consolidated Cash Flow Statement (cont.)

For the year ended December 31

Interest and taxes paid and/or received and dividends received

	2021	2020	2019
	In NIS millions		
Interest received	**10,806**	10,555	11,143
Interest paid	**(1,414)**	(2,523)	(3,423)
Dividends received	**243**	23	64
Income tax paid	**(3,043)**	(1,725)	(2,508)
Income tax received	**88**	237	16

Appendix A - Non-Cash Investments and Financing Activities in the Reporting Period:

For the year ended December 31 2021

On March 1 2021, a NIS 750 million balance was reclassified from the available-for-sale bonds portfolio to the held-to-maturity bonds portfolio.

For the year ended December 31 2020

As of December 31 2020, a right-of-use asset and liabilities recognized for new operating leases were included as non-cash activity.

For more information, please see Note 1.N. and Note 16.G.

For the year ended December 31 2019

On July 15 2019, NIS 139.9 million p.v. in Series 201 Subordinated Capital Notes were exchanged for NIS 142 million p.v. in Series 404 Subordinated Bonds and NIS 976.9 million p.v. in Series N Subordinated Bonds were exchanged for 1,099 million p.v. in Series 404 Subordinated Bonds, bringing the total issued Series 404 Subordinated Bonds to NIS 1,241 million p.v. As a result of the exchange, an accounting loss of NIS 54 million was recorded.

On December 1 2019, a balance of NIS 746 million of the held-to-maturity bonds portfolio was classified to the available-for-sale bonds portfolio.

Appendix B - Proceeds from Disposal of Investments in a Previously-Consolidated Subsidiaries:(a)

Assets and liabilities of the previously consolidated subsidiaries and inflow from disposal of investments in previously consolidated subsidiaries as of the sale date

	2021	2020	2019
	In NIS millions		
Derecognized cash	-	-	20
Assets (excluding cash)	-	-	15,398
Liabilities	-	-	13,370
Identified assets and liabilities	-	-	2,048
Assets and liabilities attributable to non-controlling interests	-	-	378
Derecognized assets and liabilities	-	-	1,670
Capital gain on disposal of investment in previously-consolidated subsidiaries	-	-	215
Total proceeds from disposal of previously-consolidated subsidiaries	-	-	1,885
Net of non-cash proceeds from disposal of investments in previously-consolidated subsidiaries	-	-	1,153
Cash proceeds	-	-	732
Less derecognized cash	-	-	20
Inflows from disposal of investments in previously consolidated subsidiaries	-	-	712

(a) For additional information, please see Note 36F to the financial statements as at December 31 2018.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's standalone condensed financial statements, please see Note 35.

List of Notes

Note 1 - Significant Accounting Policies

A. Overview

The Group's consolidated financial statements as at December 31 2021 include those of the Bank, as well as the Group's interests in associates. The financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Banking Supervision Department.

These financial statements are presented on a consolidated basis only. The Bank's standalone financial statements are presented in Note 35.

The Bank's Board of Directors approved the publication of the financial statements on March 8 2022.

B. Definitions

In these financial statements -

The Bank - Bank Leumi le-Israel B.M.

The Group – the Bank and its subsidiaries.

Consolidated companies – companies whose financial statements were fully consolidated, whether directly or indirectly, with those of the Bank.

Associates – companies, excluding consolidated companies, including partnerships or joint ventures, the Bank's direct or indirect investment in which is presented in the financial statements according to the equity method.

Investees – consolidated companies and associates.

Foreign offices – representative offices, agencies, branches or consolidated companies of the Bank based overseas.

Functional currency – the currency of the primary economic environment in which the Bank operates; this is generally the currency of the environment in which a bank generates and expends most of its cash.

Presentation currency – the currency in which the financial statements are presented.

Related parties and interested parties – as defined in Section 80 of the Reporting to the Public Directives.

The CPI – The Israeli Consumer Price Index as published by the Israel Central Bureau of Statistics.

Adjusted amount – nominal historical amount adjusted to reflect the CPI in respect of December 2003, pursuant to the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount – adjusted amount as of the Transition Date (December 31 2003) plus amounts in nominal values that were added after the Transition Date, less amounts derecognized after the Transition Date.

Nominal financial reporting – financial reporting based on reported amounts.

Adjusted financial reporting – reporting in amounts adjusted for the changes in the general purchasing power of Israeli currency pursuant to the provisions of the Opinions of the Institute of Certified Public Accountants in Israel.

Cost – costs in reported amounts.

Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Note 1 - Significant Accounting Policies (cont.)

US GAAP for banks - Accounting principles set by the banking regulatory agencies in the USA, the Securities and Exchange Commission, the Financial Accounting Standards Board and other entities in the USA. The principles are implemented according to the hierarchy established in ASC 105-10, FASB Accounting Statements Codification, of the Financial Accounting Standards Board (FASB) in the USA and the hierarchy of generally accepted accounting principles. Additionally, according to the Banking Supervision Department's guidance, despite the hierarchy prescribed by FAS 168, any position published by the US banking regulators or by their teams regarding the implementation of US GAAP, constitutes part of US GAAP.

International Financial Reporting Standards (IFRS) – standards and interpretations adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and interpretations issued by the Standing Interpretations Committee (SIC).

C. Basis of Preparation of the Financial Statements

1. Reporting principles

The Bank's financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and with the Reporting to the Public Directives and the guidance of the Banking Supervision Department. In most areas, the directives are based on US GAAP for Banks. In other, less material, topics, the directives are based on IFRSs and on Israeli GAAP.

When IFRSs allow for several alternatives, or do not include a specific reference to a particular situation, the Banking Supervision Department's directives provide specific application guidelines that are usually based on US GAAP for Banks.

2. Functional currency and presentation currency

Unless otherwise stated, the consolidated financial statements are presented in New Israeli Shekels (NIS) and are rounded to the nearest million.

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates.

For information regarding the functional currency of banking offices abroad, please see Section (D) below.

3. Measurement basis

The financial statements were prepared in accordance with the historical cost, excluding the assets and liabilities outlined below:

- Derivatives and other financial instruments measured at fair value through profit and loss.
- Financial instruments classified as available-for-sale.
- Non-current held-for-sale assets.
- Deferred tax assets and liabilities.
- Provisions.
- Assets and liabilities for employee benefits.
- Investments in associates.

The value of non-monetary assets and equity items measured at historic cost, adjusted for changes in the Consumer Price Index until December 31 2003. As of January 1 2004, the Bank prepares its financial statements using reported amounts.

4. Use of estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidance of the Banking Supervision Department requires the Bank's management to use estimates and assumptions and to exercise judgment that affect the reported amounts of assets and liabilities and disclosure of assets and contingent liabilities and income and expense amounts during the reporting period. It is clarified that the actual results may differ from those estimates.

When developing accounting estimates used in the preparation of the Bank's financial statements, the Bank's management is required to make assumptions regarding circumstances and events involving significant uncertainty. In exercising its judgment to determine the accounting estimates, the Bank's management relies on past experience, various facts, external factors and reasonable assumptions, in accordance with each estimate’s particular circumstances.

Change in estimates

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were adjusted and for any future affected period.

D. Foreign Currency and Linkage

Foreign currency transactions

Assets and liabilities denominated in foreign currency or linked thereto are translated according to the representative exchange rates published by the Bank of Israel as of the balance sheet date, or another appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated into the functional currency at the exchange rate as of reporting date.
- Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at fair value are translated into the functional currency at the exchange rate as of the date on which the fair value was determined. Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost are translated at the exchange rate as of the transaction date.

  In the income statement, foreign currency income and expenses and gains and losses are stated at the current representative exchange rates as of the transaction dates; exchange rate differentials on assets and liabilities in respect of which the aforesaid income and expenses arose are also included in the income statement, excluding:

  - Profit or loss for a hedging instrument in a hedge of a net investment in a foreign operation or cash flow hedge, excluding fair value changes of components excluded from the hedge effectiveness assessment and we will choose to recognize them in profit and loss.
  - Exchange rate differentials for items that form part of the net investment.

  According to the transitional provisions for 2021, exchange rate differentials for available-for-sale debt instruments will continue to be recognized in the income statement until January 1 2023. As of that date - they will be recognized in other comprehensive income. In the case of other-than-temporary impairment, translation differences recognized in other comprehensive income shall be reclassified to profit and loss.

Functional currency of foreign offices

An entity’s functional currency is the currency of the primary economic environment in which the entity operates. This is usually the currency of the environment in which an entity generates cash.
The functional currency of foreign offices is determined according to the following criteria:

- The office generates and expends cash in foreign currency and the scope of its NIS-denominated operations is insignificant.
- The office acquired its customers independently, such that its activities with the Bank’s customers or parties closely affiliated therewith are insignificant.

Note 1 - Significant Accounting Policies (cont.)

- The office's activity with the Bank and related parties thereof is insignificant and the foreign office is not dependent, among other things, on the Bank's funding resources or related parties thereof.
- The office's activity is independent and does not constitute an extension of the Bank's domestic activity, nor is it complementary to this activity.

When it is clear that one of the aforementioned criteria is not met, the office should be accounted for as a foreign operation whose functional currency is the NIS.

The Bank assessed its US banking office based on the aforementioned criteria and classified it as a foreign operation whose functional currency is other than the NIS.

Foreign operations

Assets and liabilities for foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS at exchange rates in effect on reporting date. Income and expenses and gains and losses of foreign operations were translated into NIS at exchange rates in effect on transaction dates.

Exchange rate differentials are recognized in other comprehensive income and presented in equity under "Adjustments from translation of financial statements".

Upon disposal, the cumulative amount in the translation reserve arising from the foreign operation is reclassified to profit or loss as part of the gain or loss from disposal.

When the Group disposes of part of its investment in an associate that includes a foreign operation while maintaining significant influence, the proportion of the cumulative amount in the translation reserve is reclassified to profit and loss.

Hedges of a net investment in a foreign operation

The Group applies hedge accounting to exchange rate differentials between the foreign operation's functional currency and the Bank's functional currency (NIS).

The exchange rate differentials arising from translation of a financial liability hedging a net investment in a foreign operation are carried to other comprehensive income and presented in equity under "Adjustments from translation of financial statements". Upon disposal of the hedged investment, the relevant amount that has accumulated in "Adjustments from translation of financial statements" is transferred to profit and loss as part of the gain or loss on disposal of the investment.

CPI-Linked assets and liabilities not measured at fair value

CPI-linked assets and liabilities are stated according to the linkage terms and conditions set for each balance.

Set forth below are data regarding the representative exchange rates and CPI and changes therein:

	December 31			Rate of change in		
	2021	2020	2019	**2021**	2020	2019
	(In NIS)			(%)		
Exchange rate of:						
US dollar	3.110	**3.215**	**3.456**	(3.27)	(6.97)	(7.79)
Euro	3.520	**3.944**	**3.878**	(10.75)	1.70	(9.65)
Pound sterling	4.203	**4.392**	**4.560**	(4.30)	(3.68)	(4.86)
Swiss franc	3.405	**3.650**	**3.575**	(6.71)	2.10	(6.09)
Consumer Price Index:	**(Points)**	**(Points)**	**(Points)**			
November – known CPI	102.3	**99.9**	**100.5**	2.4	(0.6)	0.3

Note 1 - Significant Accounting Policies (cont.)

E. Basis of Consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases. The accounting policies of subsidiaries were amended, as needed, so as to align them with the accounting policy adopted by the Group.

Intercompany balances and transactions between the consolidated companies were eliminated in the consolidated financial statements.

The financial statements of two wholly-owned asset and service subsidiaries of the Bank have been consolidated in the Bank's standalone financial statements.

Non-controlling interests

Non-controlling interests are that portion of subsidiaries' equity that is not attributable, whether directly or indirectly, to the parent company and that include additional components, such as stock-based compensation that will be settled using an equity instrument of the subsidiaries. These interests, which confer upon their holder a share of the net assets of the acquiree, are measured at fair value on acquisition date.

Profit or loss and any other component of other comprehensive income are attributed to the Bank's shareholders and to non-controlling interests. The total amount of profit, loss and other comprehensive income is attributed to the Bank's owners and to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is recognized directly in equity, to the portion attributable to the Bank's shareholders.

When the Bank's interest in a subsidiary changes without loss of control, the Bank reallocates the accumulated amounts recognized in other comprehensive income between the Bank's shareholders and non-controlling interests.

On loss of control of a subsidiary, the Bank derecognizes the subsidiary's assets and liabilities as well as other equity components attributed to the subsidiary. Any retained investment in a former subsidiary is measured at fair value on the date on which control is lost. The difference between the consideration received and the fair value of the retained investment in the former subsidiary and any derecognized balances is recognized in profit and loss. Amounts recognized in equity through other comprehensive income in respect of that subsidiary are reclassified to profit or loss. As of that date, the remaining investment is equity-accounted or treated as a financial asset according to the Bank's influence on the relating company.

2. Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is generally presumed when the Group holds a 20 percent to 50 percent interest in a company.

Investments in associates' shares is accounted for by the equity method; such investment is initially recorded as cost. When the Bank first obtains significant influence over an investment that was not equity-accounted until significant influence was attained, then the equity method is applied prospectively.

The consolidated financial statements include the Group's share in income and expenses, profit and loss and other comprehensive income of equity-accounted entities.

Note 1 - Significant Accounting Policies (cont.)

When there is a decrease in the Group's interest in an associate accounted for by the equity method, but the Group retains significant influence, the Group derecognizes a proportionate share of its investment and recognizes the gain or loss from the disposal. Furthermore, when such decrease occurs, a pro rata share of the amounts recognized in equity reserves through other comprehensive income in respect of that associate is reclassified to profit and loss.

Upon loss of significant influence, the Group stops using the equity method and accounts for the remaining investment as a financial asset classified to the held-for-trading securities portfolio or to the not held-for-trading equity securities portfolio, in accordance with its nature.

Furthermore, when significant influence is lost, a pro rata share of the amounts recognized in respect of that associate in equity reserves through other comprehensive income is reclassified to the income statement.

The Bank assesses the need to record impairment in respect of its investments in associates; please see Section (W.4) below.

F. Basis of Recognition of Income and Expenses

Income and expenses are stated on accrual basis, except as described below:

- Income and expenses from held-for-trading securities, equity securities not held for trading, and derivatives are recognized according to changes in fair value.
- Interest income and expenses are stated on an accrual basis, except as described below:
  - Interest accrued on troubled debts that were classified as impaired debts is recognized as income on a cash basis when it is certain that the remaining recorded balance of an impaired debt will be collected. In such situations, the maximum amount collected on account of interest that will be recognized as interest income will be the amount that would have accrued during the reporting period on the remaining recorded balance of the debt according to the contractual interest rate. Cash-basis interest income is classified as interest income within the relevant item of the income statement. When there is significant doubt as to the collection of the remaining recorded balance, all collected payments are used to reduce the loan's principal. Furthermore, interest payable on amounts in arrears in respect of housing loans is recorded in the income statement on the basis of actual collection.
- Loan origination fees – fees charged in respect of issuing the loan, except for loans for a period of up to three months, are recognized over the term of the loan as an adjustment of the return, except in cases of troubled debt restructuring, where the fees and commissions are recognized immediately in profit and loss.
- Early repayment fees - fees charged in respect of early repayment are recognized immediately in interest income, except such fees and commissions that are included as part of the net investment in the new loan and recognized as return adjustment.
- Changes to the debt's terms and conditions - in cases of refinancing or restructuring of non-troubled debts, the Bank assesses whether or not the changes made to the terms and conditions of the loan are minor. Changes to the terms of the debt instrument are not minor when the present value of the cash flows of the new loan is at least 10 percent different than the present value of the cash flows according to the original loan terms. If the loan terms and conditions change is minor, all unamortized fees as well as early repayment fees that were collected from the customer in respect of changes to the loan terms and conditions are included within the net investment in the new loan and recognized as adjustment of return as stated above. If the change in the loan terms and conditions is other than minor, the fees and commissions will be stated directly in profit and loss.

Note 1 - Significant Accounting Policies (cont.)

- Credit service charges are accounted for according to the likelihood that the undertaking to extend the loan will be fulfilled. If the likelihood is remote, the fee is recognized on a straight-line basis over the term of the undertaking; otherwise the Bank defers the revenue recognition from those fees until the undertaking is fulfilled or until it expires, the earlier of the two. If the undertaking is fulfilled, then the fees are recognized by way of adjusting the return over the term of the loan as stated above. If the undertaking has expired unexercised, the fees are recognized on expiry date and reported in income from fees and commissions.
- Income from fees in respect of provision of services is charged to profit and loss when the service is provided.
- Other fees and commissions, such as for guarantees and granting facilities to projects, are recognized pro rata over the transaction period.

G. Fair Value of Financial Instruments

The Bank applies the rules set in ASC 820, which defines fair value and sets a consistent basis for fair value measurement by defining fair value valuation techniques to be used to measure the value of assets and liabilities, setting the fair value hierarchy and providing detailed implementation guidelines. Furthermore, the Bank implements the Banking Supervision Department's directive regarding fair value measurement, which integrates the rules that were set in ASU 2011-04 - "Fair Value Measurement" into the Public Reporting Directives.

The standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Bank's assumptions.

Subtopic 820-10 established a hierarchy of valuation techniques, which are based on whether the inputs used to measure fair value are observable or unobservable.

The following types of inputs create a fair value hierarchy:

- Level 1 inputs: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 inputs: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; prices derived from fair value measurement models whose principal data are observable or corroborated market inputs.
- Level 3 inputs: Unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market inputs, where such inputs are available. Where possible, the Bank takes into account relevant observable market inputs when measuring fair value. The scope and frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observable prices in these markets.

The categorization of a financial instrument's fair value measurement within the fair value hierarchy is determined based on the lowest level input that is significant to the entire measurement.

The valuation techniques used by the Bank in measuring fair value are assessed while taking into consideration the relevant circumstances of the various transactions, including last transaction prices, indicative prices of pricing services and results of back-testing of similar transactions.

Credit risk and nonperformance risk assessment

FASB Accounting Standard Codification Topic 820 requires incorporating the credit risk and nonperformance risk into the fair value measurement of a debt, including derivatives issued by the Bank and measured at fair value. Nonperformance risk includes, but is not limited to, the Bank's credit risk.

For additional information regarding the principal methods and assumptions used in measuring the fair value of the financial instruments, please see Note 33A - "Balances and Fair Value Estimates of Financial Instruments"

Note 1 - Significant Accounting Policies (cont.)

Securities

The fair value of held-for-trading securities, equity securities not held for trading (for which there is readily available fair value), and available-for-sale bonds is determined based on quoted market prices in the principal market. The quoted price is not adjusted due to the size of the Bank's position in relation to the trading volume (holding size factor). Where quoted market prices are unavailable, the fair value estimate is based on the best available information while maximizing the use of observable inputs and taking into account the risks inherent in the financial instrument. Fair value is determined using generally acceptable pricing models, based on valuations carried out by financial instruments valuation experts or based on the Bank's independent system. The valuation techniques include using various parameters, such as interest curves, exchange rates and standard deviations, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, lack of marketability, etc.).

Most of the portfolio is calculated on a monthly basis by a reputable international entity which is engaged in fair value measurement and is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets. The portfolio's balance is revalued based on quotes from brokers or the issuers of the instruments, or based on the Bank's system.

Derivatives

The fair value of derivatives with an active market is determined based on quoted market prices in a principal market.

Where a quoted market price is not available, the fair value is estimated using models that incorporate the risks inherent in the derivative instrument.

Non-derivative financial instruments

Most financial instruments included in this category do not have an active market in which they are traded. Accordingly, fair value is measured using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department's guidelines, future cash flows in respect of impaired debts and other debts were calculated after deducting the effect of charge-offs and loan loss provisions in respect of the debts.

Minor changes to the disclosure requirements regarding fair value measurement

As of January 1 2021, the Bank applies ASU 2018-13 - "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement". The ASU brought about minor, specific changes in the various disclosure requirements regarding fair value measurement, such as providing disclosure regarding the manner of calculating the weighted average related to disclosure of Level 3 fair value measurements.

The application of the provision has no material effect on the financial statements.

Specific clarifications regarding accounting treatment of financial instruments

As of January 1 2021, the Bank applies ASU 2020-01, "Clarifying the Interactions between Topic 321, Topic 323, and Topic 815". The ASU clarifies that when applying a "measurement alternative" under Topic 321, observed transactions - which cause first-time application or discontinuation of application of the equity method, should be taken into account. In other words, investments in equity instruments should be remeasured at fair value shortly prior to the first-time application or shortly after discontinuing the application of the equity method (due to obtaining significant influence or losing significant influence, respectively), with the said fair value to be based on the observed transaction which brought about the change in the measurement method, if relevant. This directive has had no material effect on the financial statements.

H. Impaired Debts, Credit Risk and Loan Loss Provision

As from January 1 2011, in accordance with the Banking Supervision Department on measurement and disclosure of impaired debts, credit risk, and the loan loss provision, the Bank applies ASC 310, the positions of the US banking supervisory authorities and the Securities and Exchange Commission as adopted by the Banking Supervision Department's Reporting to the Public Directives.

The Directive is applied to all outstanding receivables, such as deposits with banks, bonds, securities borrowed or purchased under reverse repurchase agreements, loans to the public, loans to the Israeli Government, etc. Loans to the public and other receivable balances for which no specific rules were set in the Reporting to the Public Directives regarding measurement of the loan loss provision (such as loans to the Israeli Government, deposits with banks, etc.) are reported in the Bank's books of accounts according to the recorded outstanding receivable. Regarding other receivable balances for which there are specific rules regarding measurement and recognition of an impairment provision (such as bonds), the Bank continues to apply the same measurement rules.

Recorded outstanding debt – Debt balance after deducting charge-offs but before deducting loan loss provision in respect of that debt. Recorded outstanding debt does not include unrecognized accrued interest.

Loan loss provision

The Bank has set procedures to maintain a loan loss provision able to cover expected loan losses arising from its loan portfolio, including off-balance sheet credit risk. The provision to cover the expected loan losses arising from the loan portfolio is estimated through one of the following tracks:

Specific loan loss provision

The provision is made by measuring the debt's impairment based on the present value of the expected cash flow discounted by the original effective interest rate of the debt, or when the debt is a collateral-dependent debt or when an asset is expected to be foreclosed, according to the fair value of the collateral that was pledged to secure that loan (net of costs to sell).

For this purpose, the Bank defines a debt as a collateral-dependent debt when its repayment is expected to be made solely out of the collateral pledged in favor of the Bank or out of an asset held by the borrower, even if there is no specific pledge on the asset, provided that the borrower has no other available and reliable resources to repay its debt.

As a rule, a specific provision required is assessed for each debt whose contractual balance (without deducting: charge-offs not involving a legal waiver, unrecognized interest, loan loss provisions and collateral) is at least NIS 1 million and any other debt identified by the Bank for specific assessment purposes. A specific provision is recognized for each debt classified as impaired (please see below).

Collective loan loss provision

On-balance sheet loans – aiming to reflect provisions for impairments in respect of loan losses which have not been identified specifically and which arise from large pools of small debts with similar risk characteristics and in respect of specific debts that were assessed and found to be unimpaired. The loan losses are measured according to the rules set out in ASC 450 – "Accounting for Contingencies" – and the Banking Supervision Department's directives, based on historic loss rates in various economic sectors, are allocated between troubled debt and non-troubled debt for the period ranging from 2011 to the quarter preceding the reporting date. Furthermore, in order to determine the appropriate allowance rate, the Bank takes into account an adjustment in respect of environmental factors such as: Conditions of the sector, macroeconomic data, a general assessment of the quality of loans extended to an economic sector, changes in volume and the trend of balances in arrears and impaired balances, and the effect of the changes on credit concentration.

According to the Banking Supervision Department's directives, for loans granted to private individuals, the adjustment rate in respect of environmental factors shall be no less than 0.75 percent of the outstanding non-troubled consumer credit. The credit risk deriving from receivables in respect of banking credit cards without interest charges were excluded from the aforesaid.

Off-balance sheet loans - the provision is based on provision rates set for balance sheet loans, taking into account the off-balance sheet loan utilization rate. The utilization rate of loans is calculated by the Bank based on credit conversion factors (CCFs) as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement

Note 1 - Significant Accounting Policies (cont.)

and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has past experience indicating the loan unitization rates.

Housing loans – the provision is calculated according to a formula set by the Banking Supervision Department, taking into account the extent of arrears, such that the provision rates grow as the debt delinquency rates increase. The calculation of the provision according to the extent of arrears formula applies to all housing loans, except for loans that are not repaid by periodic installments and loans that fund a business activity. According to the Banking Supervision Department's directives, the outstanding collective loan loss provision in respect of housing loans will be no less than 0.35 percent of the said outstanding loans at the reporting date.

The Bank assesses the overall appropriateness of the collective loan loss provision based on management's judgment, taking into account the risks inherent in the loan portfolio.

Identification and classification of troubled debts

The Bank has set procedures for identifying troubled loans and for classifying debts as impaired. According to these procedures, the Bank classified the outstanding on-balance-sheet and off-balance-sheet troubled debts as follows: special mention, substandard or impaired.

Since July 1 2017, the Bank applies the Banking Supervision Department's revised "Frequently Asked Questions and Examples of Implementation of Reporting to the Public Directives on Impaired Debts, Credit Risk, and Loan Loss Provision". The revision focuses on establishing debt classifications based on the debtor's repayment capacity, i.e.: The expected strength of the primary repayment source, notwithstanding the support of secondary and tertiary repayment sources.

Primary repayment source – a sustainable source of cash which must be under the borrower's control, must be reserved, explicitly or implicitly, to cover the debt obligation. For a source of repayment to be considered primary, the Bank must show that the borrower is highly likely to generate, within a reasonable period of time, an adequate cash flow from a continuing business operation, which shall be used to repay all of the required installments in full and according to the repayment schedule set in the agreement.

Special mention credit

On-balance-sheet special mention credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loans are classified as special mention credit if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category. Loans tested on a collective basis will be classified as special mention when in arrears of 70 to 89 days.

Substandard loans

Substandard loans are loans which are insufficiently guaranteed by the current sound worth and repayment capacity of the borrower or the pledged collateral, if any. On-balance sheet credit risk that has been classified in this way should have a well-defined weakness or weaknesses, which jeopardize the liquidation of the debt. Loans tested on a collective basis shall be classified as substandard when it has been in arrears of 90 days or more.

Impaired loans

A debt is classified as impaired when the Bank expects it will be unable to collect the full amounts receivable under the contractual terms and conditions of the debt agreement, based on up-to-date information and events, such as: The debt's delinquency status; the borrower's financial position and solvency; an assessment of the primary repayment source for the debt; status of the collateral; the guarantors' financial position, etc.

A debt which is tested on a specific basis shall be classified as impaired whenever the principal or interest has been in arrears of 90 days or more, unless it is both well secured and in the process of collection. Additionally, impaired debt is also considered as a debt whose terms and conditions were changed due to troubled debt restructuring, unless a minimum loan loss provision was made before and after the restructuring according to the extent of arrears method.

Note 1 - Significant Accounting Policies (cont.)

Restructured troubled debts

A troubled debt which underwent formal restructuring is considered a debt for which, for economic or legal reasons related to the debtor's financial difficulties, the Bank had granted a concession by changing the terms and conditions of the debt to alleviate the burden of the debtor's near-term cash payments or by accepting other assets in satisfaction of the debt. In order to determine whether a debt restructuring carried out by the Bank constitutes restructuring of a troubled debt, the Bank carries out a qualitative assessment of the debt restructuring's terms and conditions and circumstances with the aim of determining whether (1) the borrower has financial difficulties and (2) the Bank granted a concession to the borrower as part of the debt restructuring.

In order to determine whether the debtor has financial difficulties, the Bank assesses whether there are indications that the borrower has difficulties as of restructuring date or whether it is reasonably probable that the borrower will have financial difficulties were it not for the restructuring.

Among other things, the Bank assesses whether one or more of the following criteria are met:

- As at the restructuring date, the borrower is in financial difficulties;
- With regards to debts which are not in arrears as of restructuring date, the Bank assesses whether - under the customer's current repayment capacity - it is probable that the customer will default in the foreseeable future and will fail to meet the original contractual terms and conditions of the debt;
- The debtor has declared bankruptcy, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;
- If the terms and conditions of the debt are not changed, the borrower will be unable to raise debt from other sources at the market interest rate applicable to borrowers who have not defaulted.

The borrower was granted a concession even if - as part of the restructuring - the contractual interest rate was increased, provided that one or more of the following criteria are met:

- As a result of the restructuring, the Bank is not expected to collect all outstanding amounts (including interest accrued) according to contractual terms and conditions;
- The up-to-date fair value of the collateral for collateral-dependent debts does not cover the outstanding contractual debt and indicates that it will be impossible to collect all amounts due;
- The borrower is unable to raise debt at prevailing market interest rate for a debt with terms, conditions and characteristics, such as those of the debt extended as part of the restructuring.

The Bank does not classify a debt as a restructured troubled debt if - as part of the restructuring - the borrower was granted an immaterial payments deferral, given the frequency of payments, contractual term to maturity and expected average duration of the original debt. In this regard, if several restructurings were carried out that involve changing the debt's terms and conditions, the Bank takes into account the cumulative effect of the previous restructurings when determining if the payments deferral is immaterial.

Restructured debts, including debts that were assessed on a collective basis prior to restructuring, will be classified as impaired debts and assessed on a specific basis in order to calculate the loan loss provision or charge-off. As a rule, a restructured troubled debt will be classified as impaired until it is fully repaid, except if it complied with the terms and conditions of no longer being classified as impaired and was subsequently restructured as outlined below.

Restoring an impaired debt to non-impaired status

An impaired debt may be restored to accrual status when one of the following criteria is met:

- Principal or interest are no longer past due and unpaid and the Bank expects full repayment of the outstanding principal and interest pursuant to the terms and conditions of the contract (including charge-offs or amounts that have been provided for).

Note 1 - Significant Accounting Policies (cont.)

- The debt is both well secured and in the process of collection.
- The debt was restructured (without forgiving the principal) and subsequently the banking corporation and the debtor entered into another restructuring agreement (subsequent restructuring), provided that on the date of the subsequent restructuring, the borrower is not experiencing financial difficulties and, under the terms and conditions of the subsequent restructuring agreement, the banking corporation granted no concession to the borrower. This section applies to restructuring carried out or renewed as of December 31 2016. Such a debt which has undergone subsequent restructuring and for which the impaired classification has been removed, will be assessed on a collective basis in order to quantify the loan loss provision.

The rules for restoring a debt to non-impaired status shall not apply to debts classified as impaired as a result of restructuring a troubled debt except for subsequent restructuring as stated above.

Restoring an impaired debt to impaired accrual status

After there is reasonable assurance that a restructured debt will perform and be repaid under the modified terms and conditions, it is once again accounted for as an accruing impaired debt, provided that the restructuring and any charge-offs made in connection with the debt are supported by a revised credit assessment of the debtor's financial condition and the following terms and conditions:
A debt repaid through monthly principal and interest payments - paid regularly for at least six consecutive months from the date of restructuring.
A debt that is not repaid through monthly principal and interest payments - paid regularly for at least six consecutive months from the date of restructuring and for which there were also repayments which materially reduced (by at least 20 percent) the recorded outstanding debt subsequent to the restructuring.

Revenue recognition

When a debt is classified as impaired, the Bank defines it as a non-accrual debt that no longer accrues interest income, except as set out below for certain restructured debts. Furthermore, when the debt is classified as impaired debt, the Bank cancels all interest income which has been accrued but not yet collected which had been recognized as income in profit and loss. As long as its impaired debt classification is not cancelled, the debt is classified as a non-accrual debt. A debt that has undergone a formal troubled debt restructuring and after restructuring there is reasonable assurance of repayment and performance under its modified terms and conditions shall be accounted for as accruing impaired debt. For additional information regarding revenue recognition on a cash basis in respect of debts that were classified as impaired, please see Section (F) above.

The Bank does not discontinue accruing interest income on debts in arrears of 90 days or more which are assessed and provided for on a collective basis.

Charge-off

The Bank performs charge-offs in the following cases:

- Any debt or part thereof which is assessed on a specific basis and is considered uncollectible and has a low value such that maintaining it as an asset is unjustifiable or a debt which the Bank has attempted to collect over a considerable period of time (normally for more than two years).
- In the case of a collateral-dependent debt, any portion of such debt in excess of the value of the collateral which is identified as uncollectible shall be written off immediately against the loan loss provision.
- Troubled debts which are tested on a collective basis and their extent of arrears is 150 days or more, except in case of debts under restructuring, for which the need for immediate write-off is examined. In addition, troubled debts under restructuring which were tested collectively and failed, are written off when in arrears of 60 days or more under the restructuring terms and conditions.

Note 1 - Significant Accounting Policies (cont.)

It should be clarified that charge-offs do not involve a legal concession and reduce the reported outstanding debt for accounting purposes only, while establishing a new cost basis for the debt in the Bank's books of accounts.

I. Securities

1. The securities in which the Bank invests are classified into four portfolios, as follows:

   a. Held-to-maturity bonds

   Bonds which the Bank intends to and can hold to maturity. Held-to-maturity bonds are stated at their par value plus accrued interest and exchange rate and linkage differentials, taking into account the premium or discount pro rata, and net of other-than-temporary impairment, as outlined in Section (5) below.

   b. Available-for-sale bonds

   Bonds not classified as held-to-maturity or held-for-trading. Available-for-sale bonds are stated in the balance sheet at fair value as at the reporting date. The differences between the fair value and amortized cost net of tax reserve are carried to a separate item in shareholders' equity under other comprehensive income. Other-than-temporary impairment is carried to the income statement as stated in Section (5) below.

   Unrealized gains or losses from fair value adjustments in respect of available-for-sale bonds designated as being hedged by fair value hedges were carried to the income statement over the hedging period in respect of the hedged risk.

   c. Held-for-trading securities

   Securities that were purchased and are held with the intent of selling them within a short period of time. Held-for-trading securities are stated at fair value on the balance sheet as at the reporting date. Realized and unrealized gains and losses are carried to the income statement.

   d. Equity securities not held for trading

   Equity securities with an available fair value are stated in the balance sheet at their fair value as at the reporting date. Unrealized gains or losses from adjustments to fair value are stated in the income statement.

   Equity securities with no available fair value are stated in the balance sheet at cost, less impairment, with the addition or deduction of changes in observable prices in orderly transactions in similar or identical investments of the same issuer. Unrealized gains or losses from adjustments to changes in observable prices are stated, as aforesaid, in the income statement.

2. Dividend income, accrued interest, linkage and exchange rate differentials, amortization of premium or discount (according to the effective interest method) and impairment losses from other-than-temporary amortization are carried to the income statement.

3. Interest income in respect of purchased beneficial interests - e.g. asset-backed financial instruments such as CDO, CLO, MBS and CMO (except for instruments with high quality credit) - is recognized according to the prospective interest method (the future interest rate which also incorporates prospective changes), while adjusting the interest rate used to recognize interest income to reflect changes in the estimated future cash flows. Beneficial interests of high credit quality are beneficial interests issued by the US Government and are guaranteed thereby or by US Government agencies, as well as asset-backed securities whose international credit rating is at least AA.

4. Fair value

   For additional information about the methods applied to determine fair value, please see Section (G) above.

Note 1 - Significant Accounting Policies (cont.)

5. Impairment

At each reporting period, the Bank assesses the need to record losses for other-than-temporary impairment of the bonds comprising the available-for-sale portfolio and the held-to-maturity portfolio. According to the provisions of the Banking Supervision Department, as outlined in Appendix P to the Reporting to the Public Directives and the provisions of FSP 115-2 - "Recognition and Presentation of Other-Than-Temporary Impairments", the criteria for determining whether the impairment is other-than-temporary are based on the following considerations and tests:

- The Bank intends to sell the security.
- It is more probably than not that the Bank will be required to sell the security before recovering the cost base.
- The assets and collateral backing the security.
- The rate of impairment out of the total cost of the security.
- Assessment of the repayment capacity and rating.
- Deterioration of the issuer's business or of market conditions.

It is the Bank's policy to recognize impairment as other-than-temporary when a bond meets one or more of the following criteria:

- The bond was sold until the report's publication date.
- As of the report's publication date, the Bank intends to sell the bond within a short period of time.
- A bond whose rating has been significantly downgraded during the period since the date of purchase by the Bank and the report's publication date. For purposes of this section, only a rating downgrade below -BBB is considered a significant rating decline.
- A bond classified by the Bank as troubled debt subsequent to its purchase.
- A bond in respect of which credit default has occurred which was not rectified within a reasonable period of time.
- A bond whose fair value was lower than its fair value upon purchase for a period of at least nine months as of the end of the reporting period and whose fair value as at the end of the reporting period and close to the date of the publication of the report is 15 percent or more lower than its cost (in the case of a bond – its amortized cost).

  For this purpose, an exception can be made if the Bank has concrete objective evidence and a conservative analysis of all the relevant factors showing with a high degree of certainty that the impairment is of a temporary nature. The objective evidence and the relevant factors include parameters such as: An increase in value after the date of the financial statements, a high credit rating (group A or above), an analysis of resilience under stress tests carried out by an independent external party or by the Bank, backing, including direct government investment in equity for the purpose of ensuring the issuing Bank's stability.

These principles are in accordance with the directive issued by the Banking Supervision Department, except for the definitions of "significant rating" and "significant impairment" which were determined by the Bank.

When other-than-temporary impairment occurs, the value of the bond is written-down to its fair value, which serves as its new cost basis. No distinction will be made between impairment attributed to credit risk and impairment attributed to other risks, such as market risk. Other-than-temporary impairment loss is fully stated in the income statement. Increase in the value of the security during subsequent reporting periods compared to its new cost basis are carried as a separate item in common equity within accumulated other comprehensive income and are not carried to profit and loss.

For equity securities not held for trading for which there is no available fair value, the Bank makes a qualitative assessment in order to test the equity securities for impairment, and if needed - assesses the fair value of the investment to determine total impairment loss.

J. Derivatives Including Hedge Accounting

The Bank holds derivative financial instruments in order to hedge foreign currency, interest rate risks and CPI risks; the Bank also carries out derivative activity for purposes other than hedging, including embedded derivatives that have been bifurcated.

Hedge accounting

As part of the Bank's overall strategy for managing the above risk exposures, the Bank designates certain financial instruments as fair value hedges, cash flow hedges and foreign currency hedges. The Bank formally documents the hedge ratios at the hedge's inception. The documentation includes: The hedging instrument, the hedged instrument, the nature of the hedged risk and the method for assessing the hedge effectiveness.

1. Fair value hedges

   The Bank designates derivatives as hedging the exposure to changes in the fair value of an asset or liability. Changes in the fair value of derivatives designated to hedge fair value are carried to the income statement on a current basis and presented in the same item as effects of the hedged item. The hedged item is also stated at fair value and changes in fair value that can be attributed to the hedged risk are carried to the income statement.

2. Cash flow hedges

   Both the Bank and the US subsidiary designate derivatives as hedging the exposure to the change in future expected cash flows which is attributable to a certain risk. Changes in the fair value of a derivative designated as cash flow hedges are carried to the other comprehensive income.

   If the hedging instrument no longer meets the hedge accounting criteria, or if it expires, sold, terminated or exercised, or if the Bank cancels the designation of the fair value hedge, then it is no longer accounted for according to hedge accounting.

3. For hedges of foreign operations – please see Section (D) above.

Economic hedging

Hedge accounting is not applied to derivatives used by the Bank in its Asset and Liability Management (ALM) activities. Changes in the fair value of these derivatives are recognized in profit and loss as incurred.

Other derivatives

Derivatives which do not serve for hedging purposes, are measured at fair value with the changes in the fair value of these derivatives carried immediately to profit and loss.

Embedded derivatives

Embedded derivatives are bifurcated from the host contract and accounted for separately as derivatives in accordance with ASC 815-10 if: (a) There is no clear and close connection between the economic characteristics and risks of the host contract and embedded derivative, including credit risks arising from certain embedded credit derivatives, (b) a separate instrument with the same terms and conditions as the embedded instrument would have qualified as a derivative, and (c) the hybrid derivative is not measured at fair value through profit and loss.

Bifurcated embedded derivatives are presented in the balance sheet together with the host contract and changes in their fair value are carried immediately to profit and loss.

Note 1 - Significant Accounting Policies (cont.)

In certain cases, (such as when the Bank is unable to bifurcate an embedded derivative from the host contract), the Bank elects not to bifurcate the embedded derivative and to measure the fair value of the hybrid instrument in its entirety and carry any changes in fair value to the income statement as incurred. Such election is made when the hybrid instrument is purchased or upon the occurrence of certain events in which the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in debt instruments. Such fair value election is irrevocable.

Fair value

For additional information about the methods applied to determine fair value, please see Section (G) above.

As of January 1 2021, the Bank applies ASU 2020-01, "Clarifying the Interactions between Topic 321, Topic 323, and Topic 815". The ASU clarifies that non-derivative forward contracts or purchased call options, for the purpose of purchasing equity instruments, will usually be measured according to the fair value principles as outlined in the provisions of Topic 321 prior to the settlement or exercise date, regardless of their expected accounting upon settlement or exercise.

The application of the provisions has had no material effect on the financial statements.

K. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in Subtopic 860-10 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. According to these rules, the transfer of an entire financial asset, a group of financial assets or a participating interest in an entire financial asset will be accounted for as a sale, if and only if, all of the following conditions are met: (1) The transferred financial asset has been isolated from the transferor, even under bankruptcy or other type of receivership; (2) each transferee may pledge or exchange the assets it had received, and no condition also restricts the transferee or holder from exercising its right to pledge or exchange and confers upon the transferor more than a trivial benefit to the transferor; (3) the transferor does not maintain effective control over the transferred financial assets.

In this context, a participating interest has all of the following attributes: (1) As of the transfer date, it represents a pro rata ownership interest in the entire financial asset; (2) as of the transfer date, all of the cash flows received from the entire financial asset are divided pro rate between the holders of the participating interests relative to their respective ownership holdings; (3) the interests of each of the participating interest (including the transferor in its capacity as a holder of participating interests) have the same preference, and none of the interests of any particular interest holder is subordinate to the interest of another holder; and (4) no party has the right to pledge or replace the entire financial asset, unless all of the holders of the participating interests agree to pledge or replace the entire financial asset.

If the transfer meets the criteria for accounting for it as a sale, the transferred financial assets are derecognized from the Bank's balance sheet. The difference between the proceeds and the value of the derecognized asset will be recognized in the income statement. If the transfer does not meet the conditions for accounting as a sale, it shall be accounted for as a secured debt. The financial assets shall continue to be stated in the Bank's balance sheet, without change to their value, and the proceeds of the sale are recognized as a liability of the Bank.

Securities lending transactions

The Bank applies specific provisions included in the Reporting to the Public Directives regarding lending or loaning of securities. The securities are not derecognized from the balance sheet and continue to be presented in the securities item. The collateral put up to secure the securities is presented in the securities loaned or sold under repurchase agreements item or under the securities borrowed or purchased under reverse repurchase agreements item or securities borrowed under repurchase agreements, as applicable and according to their value on the transaction date.

The Bank monitors changes in fair value on a daily basis and where applicable demands collateral. Interest received or paid in respect of such securities is reported under net interest income (expense).

Note 1 - Significant Accounting Policies (cont.)

Pursuant to the directives of the Banking Supervision Department, unsecured securities lending or borrowing transactions in which the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are accounted for as follows:

a. Unsecured lending out of the Bank's available-for-sale bonds and equity securities not held for trading or from the held-for-trading portfolios – when the Bank lends securities, it derecognizes the borrowed securities and recognizes a loan at the transferred securities' market value as of the transfer date. In subsequent periods, the Bank measures the loans in the same way in which the securities were measured prior to the lending thereof. Income on accrual basis is recognized as interest income on loans; changes in market value (other than accrual basis changes) are classified as noninterest finance income if the relevant securities are held-for-trading securities and equity securities not held for trading or as other comprehensive income if the relevant securities are available-for-sale bonds. At the end of the lending period, the Bank derecognizes the loan and re-recognizes the security.

b. Unsecured borrowing of securities – when the Bank borrows a security in an unsecured borrowing transaction, the Bank recognizes the security and a deposit against that security, at the security's market value as of the borrowing date. Such securities are classified to the held-for-trading portfolio. In subsequent periods, changes in the reporting period arising from changes in the security's market value are classified as noninterest finance income. When the Bank sells a borrowed security short, the Bank recognizes, in noninterest finance income at each reporting date, the difference - only if positive - between the market value of the shorted security at the reporting date and the balance for the unsecured borrowing transaction included in the deposits item.

Extinguishing of a liability

The Bank derecognizes a liability if it has been extinguished. The Bank derecognizes a liability if one of the two following conditions has been met: (1) The Bank paid the lender and was released from its obligation in respect of the liability, or (2) the Bank was legally released, through legal proceedings or by obtaining the lender's consent, from being the principal debtor in respect of the liability.

L. Employee Benefits

Retirement benefits - pension, severance pay and other benefits - defined benefit plans

Pension benefit is part of the compensation paid to employees for their services. In a defined benefit pension plan, the Bank undertakes to pay employees' salaries during years of employment as well as post-retirement pension annuities. The amount of the benefit paid depends on certain future events taken into consideration in the plan's benefit formula, including, inter alia, the remaining life of the employees or his/her survivors, the number of the employees' years of service and his/her salary in the years immediately preceding his/her retirement.

Definitions:

- Discount rate applied to employee benefits liabilities – The discount rate used to calculate the actuarial liability in respect of the Bank's employee benefits is based on market yields according to the option selected by the Bank out of the alternatives set forth by the Bank of Israel, which is the Government of Israel's bonds yield curve plus the spread curve of corporate bonds rated AA or more in the U.S.

- Actuarial gain/loss – the change in the value of a projected obligation or plan assets resulting from the fact that actual payments differ from estimated amounts or arising from a change in an actuarial assumption.

- Expected return on plan assets – the Bank calculates the expected long-term rate of return on plan assets using historical rates of return over a long period of time for a portfolio comprising similar assets.

- Expected benefit obligation – the actuarial present value of all benefits attributed to the employee's service provided prior to the balance sheet date in accordance with the plan's benefit formula.

- Cost of pension, net - the amount recognized in the Bank's financial statements as the cost of a pension plan for a specific period. This cost includes costs charged to profit and loss: Cost of service, interest cost,

Note 1 - Significant Accounting Policies (cont.)

expected return on plan assets and amortization of net actuarial gain/loss and costs charged to other comprehensive income: Actuarial profit and loss.

Actuarial gains and losses stated in comprehensive income arise, inter alia, from:
Current changes in the discount rates.
Changes arising from the difference between the actual experience and the actuarial assumption used to calculate the liability.
From the difference between the expected return and the actual return on plan assets.

Actuarial gains and losses as outlined below are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits according to the plan. When all or almost all of the plan participants shall no longer be active, the average remaining life expectancy of the inactive employees shall replace the average remaining service period.

The expected benefit obligation in the balance sheet is recorded net of the fair value of plan assets. When the expected benefit obligation exceeds the fair value of plan assets, the Bank will record in the balance sheet a liability at the total amount of the said difference. If the fair value of plan assets exceeds the expected benefit obligation, the Bank will record in the balance sheet an asset at the total amount of the said difference.

The Bank carries out an actuarial measurement on a quarterly basis.

Retirement benefits – defined contribution plans

A defined contribution plan is a plan which pays retirement benefits for services rendered. The plan provides an individual account for each participant in the plan and defines how employee's contributions will be determined. In this type of plan, the benefits paid to a participant will receive contingencies depending solely on the amounts contributed to the participant's account, the returns accumulated from investing these contributions, and forfeitures of benefits of other participants that may be allocated to the account of that participant. In this case, the net benefit cost for the period is the contribution required for that period.

The Bank's liability to pay severance pay under Section 14 of the Severance Pay Law is accounted for as a defined contribution plan.

Other post-employment benefits

The Bank accrues the liability across the employment period, under the predetermined terms and conditions.

Paid leave

The Bank accrues a liability for employees' compensation in respect of future absences, if all of the following conditions are met:

- The Bank's obligation is related to services already provided by the employees.
- The obligation relates to vested or accrued rights.
- Payment of the expected compensation.
- The amount can be reasonably estimated.

Paid leave

The liability in respect of paid leave is measured on a current basis without using discount rates and actuarial assumptions. Changes in the liability are carried immediately to the income statement.

Jubilee vacation leave

Discount rates and actuarial assumptions are taken into account in the calculation of the liability in respect of long-service (jubilee) leave.
Changes in the liability in respect of long-service leave (jubilee) are carried immediately to the income statement.

Sick leave

The Bank is accruing the liability as absences qualifying for compensation. To calculate the liability, discount rates and actuarial assumptions are taken into account. Changes in the liability are carried immediately to the income statement.

Note 1 - Significant Accounting Policies (cont.)

Discharges

The Bank recognizes gains or losses in respect of discharges in its defined benefit plans, with the non-recurring payments relating to the plan expected to be - cumulatively during the year - higher than the cost of service and cost of annual interest. The loss is calculated at the rate on which the actuarial obligation decreases as a result of the discharge, multiplied by the balance of actuarial gains and losses accrued in other comprehensive income.

Stock-based compensation transactions

Stock-based compensation transactions are transactions in which the Bank receives services from the employee and the consideration is provided in equity instruments.
As a rule, the Bank recognizes an expense in respect of the stock-based compensation it grants to its employees on the date in which the services are provided. An expense is recorded if it is probable that the conditions for performance will be met.
The Bank recognizes an increase in capital or liability depending on whether the bonus is equity-settled or liability-based.
Equity-settled awards are measured according to the fair value of the equity instruments issued, on the grant date.
Cash-settled awards are measured at fair value on grant date and the liability is remeasured at each balance sheet date until settled.
The tax effects of stock-based compensation transactions are recognized at the extinguishment (or expiry) date through profit and loss.

Minor updates of the defined disclosure requirements of defined benefit plans

As of January 1 2021, the Bank applies ASU 2018-14 - "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans". Among the main changes: The requirement to present an estimate of the amounts included in other comprehensive income that are expected to be amortized as an expense from accumulated other comprehensive income to the income statement in the subsequent year was revoked. A requirement was added to provide an explanation the reasons for material profits or losses related to a change in the defined benefit obligation during the period.

The application of the provision has no material effect on the financial statements.

M. Offsetting Assets and Liabilities

The Bank offsets assets and liabilities arising from the same counterparty and states their net balance in the balance sheet, when the following cumulative conditions are met:

- There is a legally enforceable right to offset the liabilities against the assets in respect of those liabilities;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counter-party owe each other determinable amounts.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the loans and the loans that were extended out of these deposits, with the Bank having no loan loss risk. The margin on this activity is included in the income statement under the fees and commissions item.

The Bank offsets derivatives entered into with the same counterparty which are subject to a master netting arrangement, only for the purpose of calculating customer's debt as presented in the various notes to the financial statements. Such offsetting is not carried out in the balance sheet.

N. Buildings and equipment

Recognition and measurement

Buildings and equipment are presented at cost, net of accumulated depreciation and impairment losses. Cost includes expenses directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct salaries as well as any additional cost directly attributable to bringing the asset

Note 1 - Significant Accounting Policies (cont.)

to an active state as intended by management. Cost of purchased software that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

Held-for-sale buildings are presented at the lower of their book value or fair value less costs to sell.

Gain or loss on sale of property, plant and equipment is included in the "other income" item in the income statement.

Subsequent costs

The book value of an item of property, plant and equipment will include the cost of replacing the part of such an item if it is expected that the future economic benefits associated with the replaced part will flow to the Bank and if its cost can be measured reliably. The book value of the replaced part is derecognized.

Current maintenance costs of property, plant and equipment items are carried to profit and loss as incurred.

Software costs

Pursuant to the Reporting to the Public Directives, the Bank classifies under this item, the costs in respect of software assets acquired or costs capitalized as an asset in respect of internally-developed and used software.

Purchased software is measured at cost net of accumulated depreciation and impairment losses.

Costs associated with the development and customization of internal use software are capitalized when the first phase of the project has been completed and only if the development costs can be measured reliably, if future economic benefits are expected and if the Bank intends to complete the development of the software and use it and has sufficient resources to do so. The Bank has also set a materiality threshold of NIS 750 thousand for capitalization of internally-used software. Capitalized costs include direct costs of materials and services and direct labor costs. These costs are measured at cost net of accumulated depreciation and impairment losses. Other costs are carried to profit and loss as incurred. Subsequent software costs are capitalized only if it is expected that the incurred costs will increase the economic benefits associated with the software. All other costs are carried to the income statement as incurred.

Depreciation

Depreciation is stated in the income statement according to the straight-line basis over the useful life of the asset as of the date on which the asset is ready for use. The Bank depreciates separately each part of property, plant and equipment with a different useful life. Leasehold improvements are amortized over the shorter of the term of the lease, including an option which is likely to be exercised, or the estimated useful life of the improvements. The Bank reviews the useful life and residual value when events or changes in circumstances indicate that the current estimates are no longer adequate, in which case they are adjusted as necessary.

For additional information regarding impairment of non-financial assets, please see Section W below.

Derecognition

Gain or loss from derecognition of a property, plant and equipment item is the difference between the asset's derecognition amount and book balance. This difference will be recorded net in the other income item in the income statement.

Leases

Contracts, including lease rights of land from the Israel Land Authority or other third parties, which provide the Bank with control over the use of the assets under a lease for a period of time in return for consideration, are accounted for as leases. Upon initial recognition, the liability is recognized at the present value amount of the future lease payments during the lease term (these payments do not include variable lease payment) and at the same time, the right-of-use asset is recognized at the amount of the lease liability, with the addition of initial costs and lease prepayments, less incentives received. For operating leases, a liability and right-of-use asset shall be recorded if the lease term is greater than 12 months.

Subsequent to initial recognition, a liability for an (operating and finance) lease is measured at amortized cost according to the effective interest method. In addition, the Bank is testing a right-of-use asset (for an operating

Note 1 - Significant Accounting Policies (cont.)

and finance lease) for impairment according to the provisions of Topic 360-10-35 of the FASB Accounting Standards Codification, Impairment Testing of Long-Lived Assets.

The lease term is the non-cancelable period in respect of which the lessee has entered into an agreement to lease the asset, together with any other periods in respect of which the lessee has an option to continue the lease for additional payment or without an additional payment, if it is reasonably certain that the lessee will exercise the option.
The Bank chose the practical relief of not bifurcating non-lease components, such as services or maintenance, but rather treating them as a single lease component.

Lease payments

Lease payments made in advance to the Israel Land Authority in respect of operating leases are stated in the income statement on a straight-line basis over the lease term. Fixed and variable rent payments are carried to profit and loss in the period for which they were paid.

O. Issuance Costs

Costs relating to issuance of bonds, promissory notes and subordinated bonds are amortized according to the effective interest method over the expected life of the issued instrument.

P. Foreclosed Assets

Assets which were foreclosed and transferred to Group ownership due to extinguishment of troubled loans, that are included under the other assets item, are presented at the lower of the fair value of the asset as of transfer date or as of balance sheet date. Amortization is carried to operating and other expenses.

Q. Contingent Liabilities

The financial statements include adequate provisions for legal claims, in accordance with the assessment of the Bank's management and the managements of its consolidated companies, based on the opinions of their legal counsel.

Contingent liabilities are accounted for in accordance with the directives of the Banking Supervision Department, classifying the claims files so far against the Bank into three groups, according to the probability of the risk exposures materializing, as follows:

- Probable risk – the probability that the risk will materialize exceeds 70 percent. Appropriate provisions are included in the financial statements for legal claims in this risk group; the claims are disclosed according to materiality.
- Possible risk – the probability that the risk will materialize ranges from 20 percent to 70 percent. Provisions are generally not included in the financial statements for legal claims in this risk group; the claims are disclosed according to materiality.
- Remote risk – the probability that the risk will materialize is smaller than or equal to 20 percent. No provisions were included in the financial statements for legal claims included in this risk group and they were not disclosed in the financial statements.

There may be cases, where - in the opinion of the Bank's management, based on the opinion of its legal counsel - it is impossible to assess the prospects of a risk materializing as a result of an ordinary legal claim or a class action certification motion before 4 quarters will have elapsed (including one annual report) from the claim filing date. No provision was made for legal claims included in this risk group and they were disclosed in the financial statements in accordance with their materiality.

The Group is also exposed to legal requirements for which a legal claim has not yet been filed or that it had been informed of. In its assessment of the risk arising from demands/legal claims that have not yet been put forward, the Group's management relies on internal assessments made by management and by the parties responsible; these assessments weigh the prospects that a legal claim will be filed, the chances of the legal claim being

Note 1 - Significant Accounting Policies (cont.)

successful, if and to the extent that it is filed, and amounts that may be payable if a compromise is reached. The assessment is based on past experience and on an analysis of the legal claims on their own merit. If a legal claim is filed, the actual result may be different than the assessment made prior to the filing of the claim.

A legal claim in respect of which the Banking Supervision Department determines that the Bank is required to make refunds is classified as "probable" and a provision is made in respect of the amount the Bank is required to refund.

In Note 26, Contingent Liabilities and Special Commitments, a disclosure was made in respect of claims against the Bank and consolidated companies the amount claimed in which is material. The materiality threshold is the higher of: 0.5 percent of the Bank's shareholders' equity or 5 percent of the Bank's annual net income.

In addition, disclosure was made to the additional exposure amount arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote.

R. Guarantees

Guarantees are contracts which include contingent payments requiring the guarantor to make payments for the guaranteed party according to the terms and conditions of the letter of guarantee. The liability in respect of the guarantee is recognized in the books at fair value even if no payments are expected to be made. In cases where, upon initial recognition, the Bank is required to recognize a provision for a contingent loss in respect of the guarantee, the liability for the guarantee will be measured at the higher of the fair value and the provision amount, in accordance with the provisions of Topic 450 of the FASB Accounting Standards Codification. The liability is derecognized on the date in which the Bank is released from the risk.

S. Income Tax

The provision for income tax by the Bank and by those of its consolidated companies which are considered financial institutions for Value Added Tax purposes include a provision for profit tax levied on the income pursuant to the Value Added Tax Law. Value Added Tax levied on salaries in financial institutions is included in the income statement under "Salaries and related expenses". The financial statements include current taxes and deferred taxes.

Current taxes

Current taxes are the amounts of taxes which are expected to be payable (or recoverable) in respect of the taxable income for the year calculated at the applicable tax rates under tax laws that have been enacted or substantively enacted until the end of the reporting period. Current tax expenses also include the changes in the tax payments related to previous years.

Deferred taxes

Deferred tax liabilities and deferred tax assets are created in respect of temporary differences and carried forward losses as at the end of the period.

Deferred tax balances are measured at the tax rates expected to be in effect for the temporary differences at the time the they are utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax liabilities are recognized by the Bank for all taxable temporary differences except for tax liabilities arising from temporary differences related to goodwill which is not tax deductible or deferred tax liabilities in respect of temporary differences arising from investment in domestic subsidiaries until December 31 2016. As of January 1 2017, the Bank recognizes a deferred tax liability in respect of temporary differences accrued as of that date in respect of domestic subsidiaries. The Bank does not recognize deferred tax liabilities in respect of investment in foreign companies since it does not intend to reinvest the undistributed profits for an indefinite period nor does it have the ability to do so.

Note 1 - Significant Accounting Policies (cont.)

Deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future. When recognizing a deferred tax asset, an entity must determine whether it will have future taxable profit from which to deduct the difference. At the same time, the Bank recognizes a separate valuation allowance in respect of the same amount included in the asset which - more likely than not - shall not be disposed of. Subsequent changes in the valuation allowance will be recognized in profit and loss in the current period even if the allowance was initially recorded in equity.

The Bank classifies interest income and expenses in respect of income taxes and fines imposed by the tax authorities to the income taxes item.

Offsetting deferred tax assets and liabilities

The Bank offsets assets and liabilities in respect of deferred taxes as described in Section (M) above.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the highest amount that has a greater than 50 percent likelihood of being realized. Changes in recognition or measurement of deferred taxes are reflected in the period in which the circumstances leading to a change in judgment occurred. The Bank implements the rules for recognition and measurement set out in FIN48.

ASUs regarding income taxes

As of January 1 2021, the Bank applies ASU 2019-12, “Simplifying the Accounting for Income Taxes”. The purpose of the ASU is to lessen the complexity of US GAAP while maintaining the usability of the information provided to users of financial statements.

The following are the main revisions: manner of calculating and allocating tax results in cases where there is loss in respect of continuing operations; manner of recognizing liabilities for deferred taxes in respect of taxable temporary differences in respect of investments in a foreign subsidiary which becomes an associate and vice versa; a requirement was added to recognize franchise tax (or other similar tax) based partially on the main income as income taxes, and the excess amount, if applicable - as non-income taxes; and the manner of recognizing the effect of the changes in tax laws or tax rates in interim financial statements.

The application of the provisions has had no material effect on the financial statements.

T. Earnings per Share

The Group presents basic and diluted earnings per share data for its ordinary share capital. Basic earnings per share is calculated by dividing the profit or loss attributed to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share is determined by adjusting the profit or loss attributed to ordinary equity holders and the weighted average number of ordinary shares outstanding, to the effects of all dilutive potential ordinary shares.

U. Reporting operating segments

a. Regulatory operating segments
The Bank reports regulatory operating segments using a uniform and comparable format prescribed by the Banking Supervision Department.
A regulatory operating segment is defined mainly based on the classification of the customers. Retail customers are classified according to total financial assets for the Household Segment and Retail Banking Segment. Customers who are not private individuals are mainly classified according to their turnovers - into business segments (separated into micro- and small businesses, mid-market, and corporations), institutional entities and financial management segment.

b. Operating segments according to management approach

Note 1 - Significant Accounting Policies (cont.)

According to the directives of the Banking Supervision Department, a bank whose operating segments according to management approach are materially different than the regulatory operating segments will also provide disclosure on operating segments according to the management approach.
An operating segment is a component of a bank engaged in activities from which it may generate income and bear expenses; the operating results of the operating segment are reviewed on an ongoing basis by the bank's management and board of directors in order to make decisions regarding the allocation of resources and assessment of its performance; there is also separate financial information regarding such segments.
The Bank's operating segments are based on characteristics of customer segments. These segments include banking products. The results of the product segment which are not attributable to the relevant customer segments are included in "Other and adjustments".

V. Controlling Shareholders Transactions

The Bank implements the accounting treatment set under US GAAP in its accounting for transactions between a banking corporation and its controlling shareholder and a company controlled by the Bank. In such cases, where the said rules do not refer to the accounting treatment, the Bank implements the rules set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.

Assets and liabilities in respect of which a transaction was carried out with a controlling shareholder are measured at fair value as of the transaction date. Due to the fact that the transaction in question is an equity transaction, the Group carries to equity the difference between the fair value and the consideration from the transaction.

W. Impairment of Non-Financial Assets

1. The Bank assesses the need to record a provision for impairment in respect of non-financial assets (such as: buildings and equipment, investments in associates and intangible assets excluding goodwill and excluding internally-used software) when events or changes in circumstances indicate that the book balance of its assets exceed their recoverable amount. Impairment losses are recognized only if the book value of a non-current asset is non-recoverable and exceeds its fair value. In other words, the total undiscounted cash flows expected to arise from the use of the asset and its disposal is lower than its book value.
   In this case, the Bank will recognize an impairment loss equal to the difference between the asset's book value and its fair value. This loss will be charged to the income statement.

   When such a loss is recognized, the impaired book value constitutes a new cost basis. The recognized loss shall not be reversed in subsequent periods, unless an appreciation occurs.

2. Impairment of goodwill
   The Bank tests for impairment once every certain period or if events or changes in circumstances indicate such a need. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its book value. The impairment loss may not exceed the goodwill amount attributed to the reporting unit.

3. Impairment of internally-developed software
   The Bank tests for impairment intangible assets remaining from a software project when there are events or changes in circumstance which indicate that the amortized cost may be unrecoverable.

   Set forth below are examples for events or changes in circumstance that indicate an impairment:

   a. Internal-use computer software is not expected to provide substantive service potential;

   b. A significant change occurs in the extent or manner in which the software is used or is expected to be used;

   c. A significant change is made or will be made to the software;

d. Costs of developing or modifying internal-use software significantly exceed the amount originally expected to develop or modify the software;

e. It is no longer probable that the development of the software will be completed and that the software will be placed in service.

The Bank recognizes impairment loss when the book value is unrecoverable and exceeds the fair value. A recognized impairment loss will not be reversed in the subsequent period even if the value appreciates.

4. Impairment of investments in associates presented according to the equity method

An investment in an associate is tested for impairment when events or changes in circumstances indicate that the investment's book balance is unrecoverable. In such a case, the Bank tests whether the impairment is other than-temporary, based on the time during which the fair value of the investment is lower than its book value and the severity of the impairment; the financial position of the investee; as well as the intention and ability of the banking corporation to continue to hold the investment until a date on which the investment is not expected to be sold at a loss. Impairment that is other-than-temporary shall be recognized in the income statement and not reversed in subsequent periods.

5. Non-current held-for-sale assets

A non-current asset (or disposal group) shall be classified as held-for-sale when management commits to an active plan to sell the asset, the asset is available-for-sale immediately at its current state, it is expected that the sale of the asset will be completed in one year and the asset is actively marketed for sale purposes.

The asset (or disposal group) shall be presented at the lower of the book values or fair value less selling costs. An impairment loss recognized upon initial classification of an asset as held-for-sale and subsequent gains or losses resulting from the remeasurement are stated in profit and loss. Appreciation gains are recognized up to total amount of impairment losses recorded since the asset was classified as held-for-sale.

A depreciable asset classified as held-for-sale shall not be amortized as long as it is classified as held-for-sale.

X. Share buyback

At the time of the Bank's share buyback, the amount of the proceeds that is paid, including direct costs, is deducted from equity. When the shares are sold or bought back, the consideration received is recognized as an increase in equity and the surplus or deficit from the transaction is stated in the premium balance.

Y. New Accounting Standards and Directives Issued by the Banking Supervision Department Prior to their Application

Revised accounting treatment of loan loss provisions – CECL and other directives

Summary of the new rules:

1. The directives of the Banking Supervision Department have adopted US GAAP ASU 2016-13, "Financial Instruments - Credit Losses" regarding Current Expected Credit Losses (CECL). The new rules present a new methodology for recording loan losses, which primarily results in earlier recognition of loan losses.
   The purpose of the new rules is to improve the quality of reporting on a banking corporation's financial position by early recording of the loan loss provisions so as to in order to support a swifter response by banks to a deterioration in borrowers' credit quality and enhance the correlation between credit risk management and the manner in which these risks are reflected in the financial statements. The rules are based on existing methods and processes.

2. Main changes expected to take place in the accounting policies:
   - The loan loss provision will be calculated according to the expected loss over the life of a loan rather than the estimated loss that has been incurred but not yet identified.

Note 1 - Significant Accounting Policies (cont.)

- The measurement of the loan loss provision will be based on segmenting the Bank's credit portfolio into groups sharing similar risk characteristics.
- When estimating the loan loss provision, significant use will be made of forward-looking information which shall reflect reasonable forecasts regarding future economic events.
- Disclosure of the effect of the loan granting date on the credit quality of the loan portfolio will be expanded.
- The new rules for calculating the loan loss provision will apply to loans, including housing loans, held-to-maturity bonds and certain off-balance sheet credit exposures.
- The credit portfolio will be broken down into accrual and non-accrual credit, such that the current definitions of impaired debts and impaired credit risk will be replaced by definitions of non-accrual debts and non-accrual credit risk, respectively.

3. The Bank's preparations for the application of the new rules:
   The Bank's preparations included, inter alia, mapping of the requirements, defining a methodology to calculate the loan loss provision estimates, segmentation of the credit portfolio into groups sharing similar risk characteristics., estimating various components in the estimation process, parallel runs, assessing reasonableness, approving the methodologies and estimates, implementing the disclosure provisions and adjusting the framework of the financial reporting controls.
   The new rules do not alter the credit risk embodied in the Bank's credit portfolio.
5. Impact of the new rules on capital adequacy:
   In December 2020, the Banking Supervision Department published a circular entitled "Regulatory Capital - Effect of Applying Accounting Principles to Expected Loan Losses". The circular sets transitional provisions for first-time adoption of new rules on expected loan losses in order to mitigate the unexpected effects of the implementation of the rules on regulatory capital.
6. Directives specific to housing loans:

   In February 2021, the Banking Supervision Department published a circular entitled "Expected Loan Losses from Financial Instruments", which reversed, among other things, the requirement to calculate a minimum collective provision of 0.35 percent for housing loans as well as the requirement to calculate a minimum provision according to the extent of arrears method; it also added the requirement to deduct from CET1, amounts for housing loans classified as non-accrual loans over time.

   Furthermore, the amendments to the Reporting to the Public Directives include, for the first time, a requirement to implement an charge-off of housing loans according to a prescribed time line and a requirement to classify housing loans that are in arrears of 90 days or more as non-accrual loans.

Effect of the new rules on the Bank's financial statements:

These rules should be adopted as of January 1 2022, by recording the cumulative effect arising from their implementation in retained earnings, net of deferred taxes, on first-time application.

The effect of the new rules reflects, inter alia, the composition of the credit portfolio of the Bank, as well as the Bank's preparations for the current state of the economy and the expected economic conditions.

Based on the Bank's estimates as at January 1 2022, the transition date, the result of the application of the new rules is a NIS 0.4 billion decrease in retained earnings.

This effect reflects an increase (decrease) in the loan loss provision (including in respect of off-balance sheet credit exposures included in the Other liabilities line item) for: (1) loans to private individuals totaling NIS 0.1 billion; (2) NIS 0.7 billion for commercial credit; and (3) NIS (0.2) in housing loans.

In addition, the Bank intends to adopt - as at the first-time application date - certain easements sanctioned by the transitional provisions, including spreading the effect of first-time application relating to its effect on Common Equity Tier 1 capital and spreading the effect over 3 years, according to the transitional provisions.

Note 1 - Significant Accounting Policies (cont.)

In addition, the application of the new rules are expected to lead to an immaterial deduction from the Common Equity Tier 1 capital on first-time application, due to the requirement to deduct from Common Equity Tier 1 capital amounts in respect of housing loans classified over time as non-accrual loans, as detailed above. The amount is not subject to the easements provided under the transitional provisions.

The application of the new rules, as aforesaid, is not expected to materially affect CET1 as at the transition date.

According to the revised methodology, the loan loss provision is comprised both of a quantitative element and a qualitative element. As a rule, the Bank's estimates are based on past losses after adjustment due to credit characteristics, adjustment for current economic conditions and reasonable future forecasts. Depending on the credit portfolio, the quantitative components are based, inter alia, on net charge-offs, probability of default and loss given default. These estimates take into account several risk and economic characteristics, such as past losses, the risk groups' risk profile, debt classification, composition of the credit portfolio, state of collateral, risk appetite, current economic and expected conditions, etc. The Bank's estimates include assessments which reflect, inter alia, conditions of uncertainty and may naturally change from time to time.

ASU 2021-01 - Easements in respect of the Reference Rate Reform on Financial Reporting - Scope

On January 7 2021, the FASB published ASU 2021-01, Easements in respect of the Reference Rate Reform on Financial Reporting, which expands on Topic 848, "Reference Rate Reform". According to the ASU, the scope of Topic 848 was expanded, such that it also includes derivatives affected by the Reference Rate Reform, even if the derivatives do not bear LIBOR or another reference interest rate which is expected to be cancelled.

The provisions may be retroactively applied from their publication date, as of the interim reports of the first quarter of 2020 or a later date, or prospectively for new changes made as of any subsequent date, including the date on which the ASU was published. The ASU will not be applicable to changes made after December 31 2022, with a few exceptions.

Discontinuation of the LIBOR rates

In March 2021, the British Financial Conduct Authority (FCA) officially announced the discontinuation of all LIBORs as of the end of 2021, with the exception of the dollar LIBOR, which will be discontinued in June of 2023.

On October 3 2021, the Banking Supervision Department published the new Proper Conduct of Banking Business Directive No. 250A, Transition from LIBOR. The directive outlines principles for implementing the transition from LIBOR to alternative base interest rates, in order to ensure adequate preparations and taking into account the potential risks involved in the transition. The directive takes into account the required fairness and disclosure aspects vis-a-vis customers. The directive covers both current agreements and new agreements.

When selecting the new interest base rates and adopting the alternative calculation methods, the Bank took into account the recommendations of the committees and work groups for the various currencies, including the International Swaps and Derivatives Association (ISDA) and fairness considerations. The Bank updated the relevant customers regarding the expected change, and posted it on its website. As of January 2022, the Bank is transitioning to the new base rates for each of the relevant currencies, and continues its preparations, inter alia, for the discontinuation of the USD LIBOR.

Material exposures

The transition to the new base rates may affect the value of various products, such as: interest rate derivatives, bonds, various types of credit, etc., affecting, in turn, the profits of the banking corporation and its exposures. According to assessments made by the Bank, the Bank has no material on-balance-sheet exposure to the products' contracts that are based on LIBOR beyond 2021.

Note 1 - Significant Accounting Policies (cont.)

Following is a breakdown of outstanding balances of contracts at the Group level, as of December 31 2021, which are affected by the LIBOR, and transactions in respect of which, that will continue beyond the discontinuation of the LIBOR*

	December 31 2021
	In NIS millions
Loans	8,992
Securities	3,481
Derivatives (gross) - nominal value	71,224

* LIBOR transactions which will continue in all currencies after December 2021, and in USD - after June 2023.

Main risks and the Bank's preparations thereto

The discontinuation of the LIBOR and transition to new interest bases affect banking corporations in Israel and around the world and requires management of transition-related risks, including legal, technological, business and behavioral risks.

The Bank has identified the risks by mapping all the relevant contracts and exposures and implementing work procedures to identify the risks and their impacts, proposing alternatives to mitigating the risks and monitoring them.

As part of the Bank's preparations, a steering committee was established; it is charged with following international publications, examining possible alternatives, working to update the legal and technological supportive infrastructure, and is responsible for communicating with the Bank's customers on the topic as well as for training Bank employees. In addition, a periodic report on the topic is provided to management and the board of directors.

Accounting implications

The discontinuation of the use of the LIBOR and the transition to alternative base rates may have various accounting effects in a number of areas, including:

- Hedge accounting - the Bank examined the implications of the change for existing hedging relationships, the documentation performed thereof and its expansion for the purpose of integrating the changes made. The Bank also adopted the easements published by the FASB in relation to standards covering the relevant transactions.
- Debt agreements - debt agreements which do not include fallback clauses led to some modifications in these agreements. These amendments will be treated as a derecognition of the existing contracts and initial recognition of the new contracts, while the difference will be recognized in the income statement or, alternatively, as a continuation of the existing contracts by updating the effective interest rate. The effect is immaterial.
- Discount rates - transitioning to alternative benchmark interest rates might bring about changes in the discount rates and forward curves used as inputs in various valuation models of various assets and liabilities, such as: Financial instruments, leases, derivatives, impairment of non-financial assets. The effect of the change in fair value due to the discount rate update is immaterial.

ASU 2020-06 - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU 2020-06 - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.

Note 1 - Significant Accounting Policies (cont.)

The ASU includes the following amendments:

- Convertible instruments: The ASU reduces the number of accounting models for treating convertible instruments and adds disclosure requirements.
- Contracts in an entity's own equity: The ASU revokes some of the conditions preventing a contract from being classified as equity.
- Calculating earnings per share: The ASU simplifies the calculation of earnings per share, inter alia, assuming that conversion into shares allows for settlement by cash or shares if the resulting effect is dilutive.

The provisions of the ASU will be applicable to publicly-traded entities in the US as of the annual and interim periods commencing after December 15 2021 or on early adoption, if the entity opted for early adoption of the standard.

Note 2 - Interest Income and Expenses

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
a. Interest income[(a)]			
From loans to the public	**10,537**	8,969	9,826
From loans to governments	**26**	24	32
From deposits with banks	**58**	85	177
From deposits with central banks and cash	**122**	93	136
From securities borrowed or purchased under reverse repurchase agreements	**6**	6	4
From bonds[(b)]	**923**	998	1,262
Total interest income	**11,672**	10,175	11,437
b. Interest expenses			
For deposits by the public	**(847)**	(1,053)	(2,026)
For deposits by governments	**(2)**	(3)	(3)
For deposits by the Bank of Israel	**(10)**	(3)	(1)
For deposits by banks	**(4)**	(11)	(26)
For securities loaned or sold under repurchase agreements	**(2)**	(8)	(3)
For bonds, promissory notes and subordinated bonds	**(461)**	(374)	(537)
Total interest expense	**(1,326)**	(1,452)	(2,596)
Total interest income, net	**10,346**	8,723	8,841
C. Details on the net effect of hedging derivatives[(c)]			
From interest income	**(60)**	(50)	(13)
d. Details on interest income from bonds, on accrual basis			
Available-for-sale	**739**	806	1,068
Held-for-trading	**22**	25	32
Held to maturity	**162**	167	162
Total included in interest income	**923**	998	1,262

(a) Including the effect of hedge relationships.
(b) Including interest in respect of mortgage-backed bonds (MBS) totaling NIS 223 million (2020 – NIS 219 million, 2019 – NIS 237 million).
(c) Additional information about the effect of hedging derivatives on subsection a.

Note 3 - Noninterest Finance Income

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
A. Noninterest finance income (expense) for not held-for-trading activities			
a.1. From activity in derivatives[(a)]			
Net expenses in respect of ALM derivatives [(b)]	**(1,652)**	(1,787)	(1,260)
Total from derivatives activity	**(1,652)**	(1,787)	(1,260)
a.2. From investment in bonds			
Gains on sale of available-for-sale bonds, net[(f)]	**256**	414	208
Losses on sale of available-for-sale bonds, net[(f)]	**(25)**	(4)	(17)
Provision for impairment of available-for-sale bonds[(f)]	**-**	(33)	(2)
Total from investment in bonds	**231**	377	189
a.3. Exchange rate differentials, net	**1,962**	1,786	1,971
a.4. Gains (losses) on investment in shares			
Gains on sale of equity securities not held for trading[(j)]	**835**	224	152
Provision for impairment for equity securities not held for trading	**(66)**	(66)	(39)
Losses on sale of equity securities not held-for-trading	**(50)**	(55)	(16)
Dividend from not held-for-trading equity securities	**27**	10	32
Unrealized gains, net from equity securities not held for trading[(i)(j)]	**96**	114	56
Gains on sale of investees' equity securities[(c)]	**-**	-	386
Losses on sale of investees' equity	**-**	(2)	(99)
Total from investment in equity securities	**842**	225	472
a.5. Gains on sold loans, net	**-**	-	15
Total noninterest finance income for equity securities not held for trading	**1,383**	601	1,387
b. Noninterest finance income (expenses) for trading activities			
Income in respect of held-for-trading derivatives, net	**349**	367	148
Realized and unrealized (losses) gains from fair value adjustments of held-for-trading bonds, net[(d)(h)]	**(18)**	51	148
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading equity securities, net[(e)(h)]	**(1)**	7	3
Dividend from held-for-trading equity securities	**1**	-	-
Total from trading activities[(g)]	**331**	425	299
Details of noninterest finance income (expenses) due to trading activities, by risk exposure:			
Interest rate exposure	**86**	(117)	27
Foreign exchange exposure	**176**	501	233
Equity exposure	**54**	37	35
Exposure to commodities and other contracts	**15**	4	4
Total	**331**	425	299
Total noninterest finance income	**1,714**	1,026	1,686

Please see comments below.

Note 3 - Noninterest Finance Income (cont.)

(a) Excluding the effect of hedge relationships.
(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedge relationships.
(c) In 2021, there were not gains on the sale of equity of investees (in 2020 - there were not gains on the sale of equity of investees; in 2019 - a gain on the sale of Leumi Card equity in the amount of NIS 314 million; for more information, please see Note 36F to the financial statements as at December 31 2018; gains of NIS 71 million on the sale of Super-Pharm equity).
(d) Of which the share of gains totaling NIS 9 million (2020 – NIS 40 million, 2019 – NIS 33 million) associated with unrealized held-for-trading bonds still held as of the balance sheet date.
(e) Of which the share of losses is NIS 1 million associated with held-for-trading equity securities still held as at the balance sheet date (2020 and 2019 - there were no gains (losses) in respect of held-for-trading equity securities still held as at the balance sheet date).
(f) Reclassified from accumulated other comprehensive income.
(g) For interest income from investments in held-for-trading bonds, please see Note 2.
(h) Including exchange rate differentials from trading activities.
(i) Including gains and losses from fair value measurement of equity securities for which there is available fair value as well as upward or downward adjustments of equity securities for which there is no available fair value.
(j) In 2021, there were gains on the sale of equity securities not held for-trading, please see Note 36 (2020 - gains on the sale of equity securities not held for trading included gain on the sale of Visa equity in the amount of NIS 86 million; 2019 - gain on the sale of equity securities not held for trading and net unrealized gains from equity securities not held for trading include gain on the sale of ABS shares and a NIS 52 million revaluation).

Note 4 - Fees and Commissions

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Account management	**649**	642	690
Credit cards	**365**	327	310
Activity in securities and certain derivatives[(a)]	**784**	727	637
Fees and commissions for distribution of financial products[(b)]	**234**	215	238
Management, operating and trust services provided to institutional entities[(c)]	**88**	80	72
Handling of credit	**203**	173	197
Exchange rate differentials	**402**	392	361
Foreign trade activity	**120**	114	119
Net income from loan portfolio servicing	**7**	9	11
Management fees and commissions on life and home insurance	**47**	53	58
Loan fees and commissions	**495**	442	431
Other fees and commissions	**112**	107	101
Total operating fees and commissions	**3,506**	3,281	3,225

(a) Including fees and commissions from underwriting activity.
(b) Primarily mutual funds' distribution fees.
(c) Primarily operation of provident funds.

Note 4A - Revenue from Contracts with Customers[a]

	For the year ended December 31 2021												
	Private indivi-duals	Small busi-nesses	Retail banking - total	Mort-gages[b]	Com-mercial	Corpo-rate	Real estate	Capital mar-kets	Other and adjust-ments	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS millions											
Account management	305	144	449	-	78	21	5	23	-	-	73	649
Credit cards	285	57	342	-	13	1	-	-	-	-	9	365
Activity in securities and certain derivatives	442	55	497	-	22	4	2	157	-	43	59	784
Fees and commissions for financial product distribution	192	15	207	-	5	-	-	-	-	1	21	234
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	88	-	88
Handling of credit	5	25	30	12	60	29	61	1	-	-	10	203
Exchange rate differentials	147	92	239	-	102	16	2	43	-	-	-	402
Foreign trade activity	4	31	35	-	62	14	1	6	-	-	2	120
Management fees and commissions on life and home insurance	-	-	-	2	-	-	-	-	-	43	2	47
Net income from loan portfolio servicing	-	-	-	7	-	-	-	-	-	-	-	7
Fees and commissions from loans and other	32	35	67	-	95	127	249	17	24	-	28	607
Total fees and commissions from main services	**1,412**	**454**	**1,866**	**21**	**437**	**212**	**320**	**247**	**24**	**175**	**204**	**3,506**

	For the year ended December 31 2020											
	Private indivi-duals	Small busi-nesses	Banking - total	Mortga-ges	Com-merci al	Corpo-rate	Real estate	Capital mar-kets	Other and adjust-ments	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS millions											
Account management	300	152	452	-	75	21	5	24	-	-	65	642
Credit cards	258	51	309	-	11	1	-	-	-	-	6	327
Activity in securities and certain derivatives	422	52	474	-	20	5	3	147	-	30	48	727
Fees and commissions for financial product distribution	179	14	193	-	4	-	-	-	-	-	18	215
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	80	-	80
Handling of credit	5	27	32	13	45	23	58	-	-	-	2	173
Exchange rate differentials	130	82	212	-	90	15	3	72	-	-	-	392
Foreign trade activity	2	27	29	-	61	14	1	7	-	-	2	114
Management fees and commissions on life and home insurance	-	-	-	3	-	-	-	-	-	45	5	53
Net income from loan portfolio servicing	1	-	1	8	-	-	-	-	-	-	-	9
Fees and commissions from loans and other	12	36	48	-	80	115	235	21	21	-	29	549
Total fees and commissions from main services	1,309	441	1,750	24	386	194	305	271	21	155	175	3,281

(a) The revenue was classified pursuant to the operating segments according to management approach.

(b) As of January 1 2022, the Mortgages Division was established in order to bring Bank Leumi's mortgage and housing loans operations under a single roof. Accordingly, the Division's activity is presented, as at December 31 2021, as a separate segment from the banking activity.

Note 4A - Revenue from Contracts with Customers (cont.)

	For the year ended December 31 2019											
	Private individuals	Small businesses	Banking - total	Mortgages	Commercial	Corporate	Real estate	Capital markets	Other and adjustments	Subsidiaries in Israel	Foreign subsidiaries	Total
												במיליוני ש"ח
Account management	310	171	481	-	81	26	5	25	-	-	72	690
Credit cards	245	43	288	-	8	1	-	4	1	-	8	310
Activity in securities and certain derivatives	362	38	400	-	15	5	2	143	-	19	53	637
Fees and commissions for financial product distribution	202	16	218	-	5	-	1	-	-	-	14	238
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	72	-	72
Handling of credit	8	33	41	16	48	29	56	1	-	-	6	197
Exchange rate differentials	124	86	210	-	91	16	2	39	-	-	3	361
Foreign trade activity	2	28	30	-	64	14	1	8	-	-	2	119
Management fees and commissions on life and home insurance	-	-	-	2	-	-	-	-	-	46	10	58
Net income from loan portfolio servicing	1	-	1	10	-	-	-	-	-	-	-	11
Fees and commissions from loans and other	-	32	32	-	85	94	249	21	18	-	33	532
Total fees and commissions from main services	1,254	447	1,701	28	397	185	316	241	19	137	201	3,225

(a) The revenue was classified pursuant to the operating segments according to management approach.

(b) As of January 1 2022, the Mortgages Division was established in order to bring Bank Leumi's mortgage and housing loans operations under a single roof. Accordingly, the Division's activity is presented as a separate segment from the banking activity. To present comparable information, comparable figures were reclassified.

Note 5 - Other Income

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Capital gains on sale of buildings and equipment	**163**	1	93
Capital loss on sale of buildings and equipment	**(7)**	(11)	(4)
Gains on central severance pay fund	**83**	9	22
Other, net	**52**	60	59
Total other income	**291**	59	170

Note 6 - Salaries and Related Expenses

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Salaries	**2,918**	2,551	3,025
Expense (income) arising from stock-based compensation transactions	**4**	(7)[(b)]	8[(b)]
Other related expenses, including study fund, paid leave and sick leave	**230**	228	249
Long-term benefits	**(6)**	-	(5)
National Insurance fees and payroll tax	**725**	602	691
Pension-related expenses (including severance pay and pension):[(a)]			
Defined benefit	**189**	175	149
Defined contribution	**185**	181	170
Other retirement benefits and non-pension retirement benefits[(a)(c)]	**(3)**	12	37
Expenses for other employee benefits[(a)]	**-**	-	1
Total salaries and related expenses	**4,242**	3,742	4,325
Of which: Salaries and related expenses payable abroad	**476**	449	467

(a) For additional information regarding employee benefits, please see Note 23.
(b) Please see Note 23I in the financial statements dated December 31 2019, under “Stock-based compensation transactions”.
(c) Of which: Service cost in respect of other post-employment benefits and non-pension retirement benefits for 2021, 2020 and 2019 is NIS 2 million, NIS 11 million and NIS 9 million, respectively.

Note 7 - Other Expenses

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Pension expenses - Defined benefit and other post-employment benefits, excluding service cost	**662**	691	706
Marketing and advertising	**134**	130	222
Professional fees: Legal fees, audit fees	**226**	218	252
Communication: Postage, telephone, couriers, etc.	**113**	119	130
IT[(a)(c)]	**50**	54	42
Office supplies	**33**	43	49
Insurance	**19**	29	17
Training and courses	**8**	6	12
Fees and commissions	**122**	118	109
Loss on assets received for loans extinguishment	**3**	-	3
Fines paid to the Bank of Israel	**1**	-	-
Others[(b)]	**280**	294	461
Total other expenses	**1,651**	1,702	2,003

(a) The item includes outsourcing expenses, but does not include the Bank's IT expenses since the Operations Division is part of the Bank and its expenses were recorded and classified into the various expense items.
(b) For additional information regarding the compensation of Bank's directors included in this item – please see Note 34C.
(c) Reclassified.

Note 8 - Provision for Profit Tax

A. Composition of the Item

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Current taxes:			
For the reporting year	**2,823**	2,053	2,403
For previous years	**30**	32	22
Current taxes - total	**2,853**	2,085	2,425
Including (excluding) changes in deferred taxes:			
For the reporting year	**422**	(729)	(595)
Total changes in deferred taxes	**422**	(729)	(595)
Provision for income taxes	**3,275**	1,356	1,830
Of which: Provision for taxes abroad	**101**	35	70

Note 8 - Provision for Profit Tax (cont.)

A. Composition of the Item (cont.)

The composition of deferred tax expenses (income) allocated to continuing operations is as follows

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Deferred tax expenses (income) before the effect of the following items:	**421**	(729)	(598)
Decrease in deductions carried forward for tax purposes	**1**	-	3
Total deferred tax expenses (income)	**422**	(729)	(595)

The table does not include the tax effect on other comprehensive income. For additional information, please see Note 10.

B. Reconciliation of the Theoretical Tax Expense and the Provision for Taxes

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Profit before taxes	**9,241**	3,491	5,405
Statutory tax rate applicable to the Bank	**34.2%**	34.2%	34.2%
Tax amount based on the statutory tax rate	**3,160**	1,194	1,848
Tax (tax saving) in respect of:			
Income of foreign consolidated companies	**(14)**	19	16
Exempt income and income taxable at limited rates	**(7)**	(1)	(3)
Differences in depreciation, depreciation adjustments and capital gain	**(14)**	2	(22)
Other non-deductible expenses	**14**	12	9
Losses and timing differences in respect of which deferred taxes were not recorded	**2**	25	(107)
Tax for previous years	**30**	32	22
Other	**104**	73	67
Provision for income taxes	**3,275**	1,356	1,830

C. Tax Assessments

The Bank has final tax assessments up to and including the 2016 tax year. As of the end of 2021, the Bank signed an agreement with the Israel Tax Authority for the 2015-2016 tax years.
The main consolidated subsidiaries have final tax assessments up to and including the 2014 tax year.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items

	Balance as at December 31 2020	Changes carried to profit and loss	Changes carried to other comprehensive income	Translation differences in respect of deferred tax balances	Other	Balance as at December 31 2021	Average tax rates in 2021 (in %)
	In NIS millions						
Deferred tax assets							
From loan loss provision	1,752	(259)	-	(2)	-	1,491	34%
From provision for paid leave and bonuses	200	(9)	-	(1)	-	190	33%
From excess of employee benefits liability over plan assets	4,457	101	(136)	-	-	4,422	34%
From interest not recognized in current year's income	13	-	-	-	-	13	29%
Tax credit and losses carried forward for tax purposes	158	(29)	-	-	-	129	16%
From securities	19	(150)	149	-	(3)	15	26%
Property, plant and equipment and leases	3	1	-	-	-	4	20%
Other from non-monetary items	68	17	-	(1)	-	84	17%
Balance of deferred tax assets, gross	6,670	(328)	13	(4)	(3)	6,348	
Provision for deferred tax asset	(130)	29	-	-	-	(101)	
Balance of deferred tax assets less deferred tax provision	6,540	(299)	13	(4)	(3)	6,247	
Offsettable balances[(a)]	(282)	-	-	-	-	(390)	
Balance of deferred taxes less provision	6,258	-	-	-	-	5,857	
Deferred tax liability							
For investments in investees	(204)	(122)	1	-	-	(325)	12%
Adjustment of depreciable non-monetary assets	(140)	(1)	-	-	-	(141)	27%
Other from monetary items	(14)	-	14	-	-	-	25%
Other from non-monetary items	(10)	-	-	-	-	(10)	18%
Balance of deferred tax liabilities, gross	(368)	(123)	15	-	-	(476)	
Offsettable balances[(a)]	(282)	-	-	-	-	(390)	
Balance of deferred tax liabilities	(86)	-	-	-	-	(86)	
Balance of deferred taxes, net	6,172	(422)	28	(4)	(3)	5,771	

(a) Balance of deferred taxes are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items (cont.)

	Balance as at December 31 2019	Changes carried to profit and loss	Changes carried to other compre-hensive income	Trans-lation diffe-rences in respect of deferred tax balances	Other	Balance as at December 31 2020	Average tax rates in 2020 (in %)
	In NIS millions						
Deferred tax assets							
From loan loss provision	1,276	481	-	(5)	-	1,752	34%
From provision for paid leave and bonuses	234	(32)	-	(2)	-	200	32%
From excess of employee benefits liability over plan assets	4,506	74	(122)	(1)	-	4,457	34%
From interest not recognized in current year's income	16	(2)	-	(1)	-	13	28%
Tax credit and losses carried forward for tax purposes	156	2	-	-	-	158	18%
From securities	30	259	(275)	2	3	19	17%
Property, plant and equipment and leases	2	1	-	-	-	3	20%
Other from non-monetary items	1	(1)	-	-	-	-	-
Other from monetary items	69	-	-	(1)	-	68	17%
Balance of deferred tax assets, gross	6,290	782	(397)	(8)	3	6,670	
Provision for deferred tax asset	(124)	(6)	-	-	-	(130)	
Balance of deferred tax asset less deferred tax provision	6,166	776	(397)	(8)	3	6,540	
Offsettable balances[(a)]	(227)	-	-	-	-	(282)	
Balance of deferred taxes less provision	5,939	-	-	-	-	6,258	
Deferred tax liability							
For investments in investees	(166)	(40)	2	-	-	(204)	12%
Adjustment of depreciable non-monetary assets	(131)	(10)	-	1	-	(140)	26%
Other from monetary items	(2)	3	(15)	-	-	(14)	29%
Other from non-monetary items	(10)	-	-	-	-	(10)	17%
Balance of deferred tax liabilities, gross	(309)	(47)	(13)	1	-	(368)	
Offsettable balances[(a)]	(227)	-	-	-	-	(282)	
Balance of deferred tax liabilities	(82)	-	-	-	-	(86)	
Balance of deferred taxes, net	5,857	729	(410)	(7)	3	6,172	

(a) Balance of deferred taxes are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

Note 8 - Provision for Profit Tax (cont.)

E. Deferred Tax Liabilities that Were Not Recognized in Respect of Temporary Differences Related to Investments in Local Subsidiaries

Pursuant to the transitional provisions set forth in the Banking Supervision Department's directives, the Bank did not record a deferred tax liability in respect of certain temporary differences related to the Bank's investment in local subsidiaries, which is permanent in nature. The said amount will be taxed only upon disposal or liquidation of the subsidiaries.

F. Carried Forward Tax Losses and Tax Credits

	For the year ended December 31 2021				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Subsidiaries in Israel	**15**	**(15)**	**-**	**44**	**-**
Foreign subsidiaries	**-**	**-**	**-**	**-**	**-**
Tax credits					
The Bank	**114**	**(86)**	**28**	**-**	**-**

	For the year ended December 31 2020				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS millions				
Losses for tax purposes					
Subsidiaries in Israel	10	(10)	-	29	-
Foreign subsidiaries	7	(7)	-	22	-
Tax credits					
The Bank	141	(113)	28	-	-

G. Deferred tax balances are measured at the tax rates expected to be in effect for the temporary differences at the time the they are utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

H. Following the publication of the Banking Supervision Department's circular regarding the measurement and disclosure of impaired debts, loans and loan loss provisions, the banks (including the Bank) and the Israel Tax Authority reached an agreement regarding the recognition of loan loss provisions for tax purposes. The agreement was signed on March 19 2012; it applies to impaired debts recorded beginning on January 1 2011 (the previous agreement applies to doubtful debts recorded until December 31 2010). The agreement in principle is effective through the 2022 tax year, inclusive.

Following are the main points of the agreement:

Specifically assessed large impaired debts – the provision is deductible for tax purposes in the year in which it was recorded as an expense in the financial statements. In a tax year in which the outstanding loan loss provision decreased (for reasons other than an accounting "write-off" or "loan forgiveness"), an "additional tax" will be added to the Bank's tax liability with the addition of interest and linkage differentials; such "additional tax" will trigger the collection of the tax that would have been collected had the deductible provision not been recorded in the first place.

For these purposes – a "large debt" is a debt of NIS 1 million or more, or a lower amount as set out in the Bank's notice to the Assessment Officer and according to the Bank's characteristics.

Note 8 - Provision for Profit Tax (cont.)

Impaired debts which are not sizable – half of the expenses in respect of net "charge-offs" (net of collections during that year) will be deductible for tax purposes in the first tax year after the tax year in which they were recorded; the other half will become deductible in the second tax year after the tax year in which the expenses were recorded.

Collective provision – not deductible for tax purposes.

I. Settlement agreement that regulates tax payments in Israel in respect of profits of the Bank's foreign subsidiaries, signed between the Bank and the Assessing Officer for Large Enterprises, from August 1987.

J. According to an arrangement with the tax authorities dated April 14 2005, June 29 2014 and December 30 2018, the Bank may deduct tax amounts under certain conditions if the overall tax rate on the Bank's domestic income is higher than the tax rate applicable to foreign subsidiaries. The amount which has not yet been deducted from the tax liability and for which there are no tax savings in the future included in the balance sheet as at December 31 2021 is USD 5 million (as at December 31 2020 - approx. USD 13 million). The maximum deductible tax amount per year is USD 5-8 million.

K. As a rule, the Bank, under agreement with the tax authorities, is taxed based on the appreciation of its securities, according to their presentation in the financial statements financial entities.

L. Tax rate

The taxes applicable to the profit of banking corporations include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below are the statutory tax rates applicable to banking corporations from 2018 onwards:

- Corporate tax rate - 23.00 percent.
- Profit tax rate - 17.00 percent.
- Total tax rate - 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

Note 9 - Earnings per Ordinary Share

A. Basic Earnings Attributable to Shareholders

The Bank's diluted earnings per share are calculated by dividing the gain attributed to the Bank's ordinary shareholders by the weighted average of the number of the Bank's outstanding ordinary shares, as follows:

	For the year ended December 31		
	2021	2020	2019
Basic earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**6,028**	2,102	3,522
Weighted average of the number of shares (in thousands of shares)			
Balance as at beginning of period[(a)]	**1,452,896**	1,466,191	1,493,609
Weighted effect of exercised PSUs and RSUs and the issuance of shares	-	163	414
Weighted effect for share buyback	-	(10,582)	(9,956)
Weighted average of number of shares	**1,452,896**	1,455,772	1,484,067
Basic earnings per share (in NIS)	**4.15**	1.44	2.37

(a) Balance as at the beginning of period less share buyback until the cutoff date.

B. Diluted Earnings Per Share

The calculated diluted earnings per share is divided by the weighted average of the number of the Bank's outstanding ordinary shares, after adjustment for all the potentially dilutive ordinary shares, as follows:

	For the year ended December 31		
	2021	2020	2019
Diluted earnings			
Net income attributable to the Bank's shareholders (in NIS millions)	**6,028**	2,102	3,522
Weighted average of the number of shares (in thousands of shares)			
Weighted average of the number of ordinary shares used to calculate basic earnings per share	**1,452,896**	1,455,772	1,484,067
Weighted effect of yet unexercised PSUs and RSUs	-	30	284
Weighted average of the number of shares, fully diluted	**1,452,896**	1,455,802	1,484,351
Diluted earnings per share (in NIS)	**4.15**	1.44	2.37

C. Share Capital

As at December 31 2021 and December 31 2020, the Bank's issued and paid up share capital less the Bank's share buyback plan during 2018 to 2020 is 1,452,896,006 ordinary shares of NIS 1 p.v. each.

As at December 31 2019, the Bank's issued and paid up share capital less the Bank's share buyback plan during 2018 and 2019 is 1,466,191,030 ordinary shares of NIS 1 p.v. each.

Note 10 - Accumulated Other Comprehensive Income (Loss)

A. Changes in Accumulated Other Comprehensive Income (Loss) After Tax Effect

	For the year ended December 31 2021							
	Other comprehensive income before attribution to non-controlling interests							
	Adjust-ments in respect of presen-tation of available-for-sale bonds at fair value	Net translation adjust-ments,[a] after the effect of hedges[b]	Net gains (losses) for cash flow hedges	The Bank's share in other compre-hensive income of equity-accounted investees	Adjust-ments in respect of employee benefits[c]	Total	Other compre-hensive income (loss) attribut-able to non-controlling interests	Other compre-hensive income (loss) attribut-able to the Bank's share-holders
	In NIS millions							
Balance as at January 1 2019	(317)	(73)	-	(9)	(1,763)	(2,162)	(30)	(2,132)
Net change during the year	968	(126)	(2)	(4)	(2,208)	(1,372)	(17)	(1,355)
Cumulative effect for first-time application of US GAAP[d]	(27)	-	-	-	-	(27)	-	(27)
Sale of equity of a consolidated company	-	-	-	-	23	23	4	19
Balance as at December 31 2019	624	(199)	(2)	(13)	(3,948)	(3,538)	(43)	(3,495)
Net change during the year	539	(96)	28	(3)	214	682	(21)	703
Balance as at December 31 2020	1,163	(295)	26	(16)	(3,734)	(2,856)	(64)	(2,792)
Net change during the year	**(289)**	**(48)**	**(26)**	**(10)**	**256**	**(117)**	**(32)**	**(85)**
Balance as at December 31 2021	**874**	**(343)**	**-**	**(26)**	**(3,478)**	**(2,973)**	**(96)**	**(2,877)**

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(b) Net losses for hedging a net investment in foreign currency.
(c) The adjustments for employee benefits are net of adjustments for plan assets, including the effect of transitioning to a paying fund for the retirees and include executed voluntary retirement plans.
(d) Cumulative effect for first-time application of US GAAP for Banks - 2016-01 ASU - “Financial Instruments”, including updates thereof. Please see Note 1.X. to the financial statements as at December 31 2019.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect

	For the year ended December 31								
	2021			2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	In NIS millions								
Changes in other comprehensive profit (loss) components before attribution to non-controlling interests:									
Adjustments in respect of presentation of available-for-sale bonds at fair value:									
Unrealized gains (losses), net, from fair value adjustments	**(207)**	**70**	**(137)**	1,191	(404)	787	1,657	(565)	1,092
(Gains) losses in respect of available-for-sale bonds reclassified to the income statement[(a)]	**(231)**	**79**	**(152)**	(377)	129	(248)	(189)	65	(124)
Net change during the year	**(438)**	**149**	**(289)**	814	(275)	539	1,468	(500)	968
Translation adjustments:[(b)]									
Adjustments from translation of Financial Statements	**(95)**	**-**	**(95)**	(193)	-	(193)	(243)	-	(243)
Hedges[(c)]	**71**	**(24)**	**47**	147	(50)	97	178	(61)	117
Net change during the year	**(24)**	**(24)**	**(48)**	(46)	(50)	(96)	(65)	(61)	(126)
Net gains (losses) for cash flow hedges	**(40)**	**14**	**(26)**	43	(15)	28	(3)	1	(2)
The Bank's share in other comprehensive income (loss) of equity-accounted associates	**(11)**	**1**	**(10)**	(5)	2	(3)	(5)	1	(4)
Employee benefits:[(e)]									
Net actuarial gain (loss) for the year	**(101)**	**33**	**(68)**	(134)	39	(95)	(3,746)	1,276	(2,470)
Net gains (losses) reclassified to the income statement[(d)]	**493**	**(169)**	**324**	470	(161)	309	398	(136)	262
Sale of equity of a consolidated company	**-**	**-**	**-**	-	-	-	31	(8)	23
Net change during the year	**392**	**(136)**	**256**	336	(122)	214	(3,317)	1,132	(2,185)
Total change during the year, net	**(121)**	**4**	**(117)**	1,142	(460)	682	(1,922)	573	(1,349)
Less changes in other comprehensive income (loss) components attributable to non-controlling interests									
Total change during the year, net	**(40)**	**8**	**(32)**	(17)	(4)	(21)	(2)	(11)	(13)
Changes in other comprehensive income (loss) components attributable to the Bank's shareholders									
Total change during the year, net	**(81)**	**(4)**	**(85)**	1,159	(456)	703	(1,920)	584	(1,336)

(a) The before tax amount is reported in the income statement under the noninterest finance income item. Please see also Note 3.
(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(c) Net gains (losses) for hedging a net investment in foreign currency.
(d) The pre-tax amount is reported in the income statement under Pension expenses - "Defined benefit and other post-employment benefits, excluding service cost". For additional information, please see Note 23.
(e) Adjustments for employee benefits include the costs of the implemented voluntary retirement programs.

Note 11 - Cash and Deposits with Banks

	December 31	
	2021	2020
	In NIS millions	
Cash and deposits with central banks	**183,844**	126,765
Deposits with commercial banks[a]	**13,558**	9,429
Total[b]	**197,402**	136,194
Of which: Cash, deposits with banks and deposits with central banks with original maturities of up to three months	**194,225**	132,616

(a) Less loan loss provision.
(b) Of which: pledged cash amounting to NIS 1,247 million (December 31 2020 – NIS 1,951 million).

Comment: For information on pledges, please see Note 27.

Note 12 - Securities

	December 31									
	2021					2020				
	Balance sheet value	Amortized cost	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value[a]	Balance sheet value	Amortized cost	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value[a]
	In NIS millions									
Held-to-maturity bonds:[g]										
Of the Israeli Government	**4,023**	**4,023**	**389**	**(2)**	**4,410**	3,919	3,919	557	(1)	4,475
Mortgage-backed (MBS)	**2,315**	**2,315**	**14**	**(38)**	**2,291**	2,265	2,265	40	(8)	2,297
Of other foreign entities	**1,693**	**1,693**	**63**	**(60)**	**1,696**	818	818	68	-	886
Total held-to-maturity bonds	**8,031**	**8,031**	**466**	**(100)**	**8,397**	7,002	7,002	665	(9)	7,658

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2021					2020				
			Accumulated other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Balance sheet value	Amor-tized cost	Gains	Losses	Fair value[a]	Balance sheet value	Amor-tized cost	Gains	Losses	Fair value[a]
	In NIS millions									
Available-for-sale bonds:[g]										
Of the Israeli Government	**23,666**	**22,482**	**1,198**	**(14)**	**23,666**	34,821	33,592	1,233	(4)	34,821
Of foreign governments	**26,512**	**26,559**	**32**	**(79)**	**26,512**	19,893	19,794	112	(13)	19,893
Of Israeli financial institutions	**54**	**48**	**6**	**-**	**54**	69	64	5	-	69
Of foreign financial institutions	**8,302**	**8,192**	**123**	**(13)**	**8,302**	8,861	8,590	271	-	8,861
Asset-backed (ABS) or mortgage-backed (MBS)	**7,175**	**7,234**	**27**	**(86)**	**7,175**	6,996	6,932	87	(23)	6,996
Of other Israeli entities	**585**	**561**	**24**	**-**	**585**	220	209	11	-	220
Of other foreign entities	**5,136**	**5,017**	**158**	**(39)**	**5,136**	6,067	5,684	387	(4)	6,067
Total available-for-sale bonds[f]	**71,430**	**70,093**	**1,568[c]**	**(231)[c]**	**71,430**	76,927	74,865	2,106[c]	(44)[c]	76,927

	December 31									
	2021					2020				
	Balance sheet value	Cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[a]	Balance sheet value	Cost	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[a]
	In NIS millions									
Investment in not held for-trading equity securities and mutual funds:										
Equity securities and mutual funds	**4,344**	**4,058**	**377**	**(91)**	**4,344**	4,335	4,148	230	(43)	4,335
Of which: equity securities and mutual funds for which there is no available fair value[b]	**1,743**	**1,743**	**-**	**-**	**1,743**	1,566	1,566	-	-	1,566
Total equity securities and mutual funds not held-for-trading	**4,344**	**4,058**	**377[d]**	**(91)[d]**	**4,344**	4,335	4,148	230[d]	(43)[d]	4,335
Total not held for-trading securities	**83,805**	**82,182**	**2,411**	**(422)**	**84,171**	88,264	86,015	3,001	(96)	88,920

Please see comments below.

Note 12 - Securities (cont.)

	December 31									
	2021					2020				
	Balance sheet value	Amor-tized cost (in equity securities - cost)	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[a]	Balance sheet value	Amor-tized cost (in equity securities - cost)	Unrealized gains from fair value adjust-ments	Unrealized losses from fair value adjust-ments	Fair value[a]
	In NIS millions									
Held-for-trading securities: Bonds -										
Of the Israeli Government	2,591	2,589	4	(2)	2,591	3,144	3,135	9	-	3,144
Of foreign governments	-	-	-	-	-	223	192	31	-	223
Of Israeli financial institutions	288	284	4	-	288	323	319	4	-	323
Of foreign financial institutions	27	27	-	-	27	98	96	3	(1)	98
Asset-backed (ABS) or mortgage-backed (MBS)	42	44	-	(2)	42	80	85	-	(5)	80
Of other Israeli entities	106	103	3	-	106	58	56	2	-	58
Of other foreign entities	53	51	2	-	53	46	43	3	-	46
Total bonds	3,107	3,098	13	(4)	3,107	3,972	3,926	52	(6)	3,972
Equity securities and mutual funds	15	16	-	(1)	15	61	55	7	(1)	61
Total held-for-trading securities	3,122	3,114	13[d]	(5)[d]	3,122	4,033	3,981	59[d]	(7)[d]	4,033
Total securities[e]	86,927	85,296	2,424	(427)	87,293	92,297	89,996	3,060	(103)	92,953

Comments:
(a) In most cases, fair value inputs are based on quoted share prices, which do not necessarily reflect the price that can be obtained from selling large blocks of securities.
(b) Shares for which no fair value is available are presented at cost less impairment, adjusted upwards or downwards for observable prices in similar transactions or identical transactions of the same issuer.
(c) Included in equity under the "Adjustments in respect of the presentation of available-for-sale securities at fair value" under other comprehensive income, except for securities designated to be hedged at fair value.
(d) Carried to the income statement.
(e) There were no impaired bonds as at December 31 2021 and December 31 2020.
(f) Total of NIS 9.1 billion out of total foreign currency securities are rated SSA (Supranationals, Sovereign and Agencies) (December 31 2020 – NIS 9.0 billion).
(g) On March 1 2021, the subsidiary in the US classified a NIS 750 million (USD 225 million) balance from the available-for-sale bonds portfolio to the held-to-maturity bonds portfolio.

General comments:
Loaned securities in the amount of NIS 25 million (December 31 2020 - NIS 95 million) are presented under the loans to the public item.
Pledged securities totaled NIS 21,206 million (December 31 2020 - NIS 14,419 million).
For additional information on the financial performance of investments in bonds, shares and mutual funds, please see Notes 2 and 3.
The distinction between Israeli and foreign bonds was made according to the issuer's country of residence.

Note 12 - Securities (cont.)

Additional information on Amortized Cost and Deferred Losses, by Duration and Impairment Percentage, of Held-to-Maturity Bonds in an Deferred Loss Position

	December 31 2021									
	Less than 12 months[a]					12 months or more[b]				
		Deferred losses from fair value adjustments					Deferred losses from fair value adjustments			
	Amortized cost	0-[c]20%	20%[d]-35%	Over[e] 35%	Total	Amortized cost	0-[c]20%	20%[d]-35%	Over[e] 35%	Total
	In NIS millions									
Bonds										
Of the Israeli Government	156	-[f]	-	-	-	31	2	-	-	2
Mortgage-backed (MBS)	1,724	32	-	-	32	65	6	-	-	6
Of other foreign entities	926	60	-	-	60	-	-	-	-	-
Total held-to-maturity bonds	2,806	92	-	-	92	96	8	-	-	8

	December 31 2020									
	Less than 12 months[a]					12 months or more[b]				
		Deferred losses from fair value adjustments					Deferred losses from fair value adjustments			
	Amortized cost	0-[c]20%	20%[d]-35%	Over[e] 35%	Total	Amortized cost	0-[c]20%	20%[d]-35%	Over[e] 35%	Total
	In NIS millions									
Bonds										
Of the Israeli Government	31	1	-	-	1	-	-	-	-	-
Mortgage-backed (MBS)	252	5	-	-	5	117	3	-	-	3
Of other foreign entities	273	-[f]	-	-	-	-	-	-	-	-
Total held-to-maturity bonds	556	6	-	-	6	117	3	-	-	3

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 35 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 35 percent of their amortized cost.
(f) Losses of less than NIS 1 million.

Note 12 - Securities (cont.)

Additional Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-for-Sale Bonds in an Unrealized Loss Position

	December 31 2021									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[g]					Unrealized losses[g]			
	Fair value	0-[c]20%	20%[d]-35%	Over[e] 35%	Total	Fair value	0-[c]20%	20%[d]-35%	Over[e] 35%	Total
	In NIS millions									
Bonds										
Of the Israeli Government	1,146	14	-	-	14	-	-	-	-	-
Of foreign governments	13,665	78	-	-	78	26	1	-	-	1
Of foreign financial institutions	2,256	13	-	-	13	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS)	3,485	55	-	-	55	1,040	31	-	-	31
Of other Israeli entities	42	-[f]	-	-	-	-	-	-	-	-
Of other foreign entities	1,656	29	-	-	29	195	10	-	-	10
Total available-for-sale bonds	22,250	189	-	-	189	1,261	42	-	-	42

	December 31 2020									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[g]					Unrealized losses[g]			
	Fair value	0-[c]20%	20%[d]-35%	Over[e] 35%	Total	Fair value	0-[c]20%	20%[d]-35%	Over[e] 35%	Total
	In NIS millions									
Bonds										
Of the Israeli Government	1,490	4	-	-	4	-	-	-	-	-
Of foreign governments	4,073	13	-	-	13	-	-	-	-	-
Of foreign financial institutions	363	-[f]	-	-	-	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS)	926	10	-	-	10	1,018	13	-	-	13
Of other Israeli entities	5	-[f]	-	-	-	-	-	-	-	-
Of other foreign entities	568	4	-	-	4	-	-	-	-	-
Total available-for-sale bonds	7,425	31	-	-	31	1,018	13	-	-	13

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 35 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 35 percent of their amortized cost.
(f) Losses of less than NIS 1 million.
(g) Amounts charged to the capital reserve as part of other comprehensive income, net, after tax effect.

Note 12 - Securities (cont.)

Additional information on mortgage-backed and asset-backed available-for-sale bonds in an unrealized loss position

	December 31 2021					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjustments[a]	Fair value	Unrealized losses from fair value adjustments[a]	Fair value	Unrealized losses from fair value adjustments[a]
	In NIS millions					
Mortgage-backed bonds (MBS)	2,486	(35)	34	(2)	2,520	(37)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBS)	609	(19)	373	(16)	982	(35)
Asset-backed bonds (ABS)	390	(1)	633	(13)	1,023	(14)
Total	3,485	(55)	1,040	(31)	4,525	(86)

	December 31 2020					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjustments[a]	Fair value	Unrealized losses from fair value adjustments[a]	Fair value	Unrealized losses from fair value adjustments[a]
	In NIS millions					
Mortgage-backed bonds (MBS)	108	(1)	40	(1)	148	(2)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBS)	576	(7)	77	(2)	653	(9)
Asset-backed bonds (ABS)	242	(2)	901	(10)	1,143	(12)
Total	926	(10)	1,018	(13)	1,944	(23)

(a) Amounts charged to the capital reserve as part of other comprehensive income, net, after tax effect.
(b) Investments in a continuous unrealized loss position for a period of less than 12 months.
(c) Investments in a continuous unrealized loss position for a period of 12 months or more.

Note 12 - Securities (cont.)

Additional Information on Held-to-Maturity Mortgage-Backed Bonds

	December 31							
	2021				2020			
	Amortized cost	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value	Amortized cost	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value
	In NIS millions							
Mortgage-backed bonds (MBS)								
Pass-through held-to-maturity bonds	**2,274**	**14**	**(34)**	**2,254**	2,102	40	(4)	2,138
Of which: GNMA-guaranteed securities	**1,343**	**8**	**(19)**	**1,332**	1,114	19	(4)	1,129
Securities issued by FNMA or FHLMC	**931**	**6**	**(15)**	**922**	988	21	-	1,009
Other mortgage-backed bonds (including CMOs and stripped MBS)	**41**	**-**	**(4)**	**37**	163	-	(4)	159
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**41**	**-**	**(4)**	**37**	163	-	(4)	159
Total mortgage-backed bonds (MBS)	**2,315**	**14**	**(38)**	**2,291**	2,265	40	(8)	2,297
Total mortgage-backed held-to-maturity bonds	**2,315**	**14**	**(38)**	**2,291**	2,265	40	(8)	2,297

Note 12 - Securities (cont.)

Additional Information on Mortgage-Backed and Asset-Backed Available-for-Sale Bonds

	December 31							
	2021				2020			
		Accumulated other comprehensive income (loss)[a]				Accumulated other comprehensive income (loss)[a]		
	Amor-tized cost	Gains	Losses	Fair value	Amor-tized cost	Gains	Losses	Fair value
	In NIS millions							
Mortgage-backed bonds (MBS)								
Pass-through bonds	3,093	8	(37)	3,064	2,513	36	(2)	2,547
Of which: GNMA-backed bonds	1,458	2	(19)	1,441	735	9	(1)	743
Bonds issued by FNMA or FHLMC	1,635	6	(18)	1,623	1,778	27	(1)	1,804
Other mortgage-backed bonds (including CMOs and stripped MBS)	2,033	12	(35)	2,010	2,494	41	(9)	2,526
Of which: bonds issued or guaranteed by GNMA, FNMA, or FHLMC	1,683	10	(33)	1,660	2,159	33	(8)	2,184
Total mortgage-backed bonds (MBS)	5,126	20	(72)	5,074	5,007	77	(11)	5,073
Asset-backed bonds (ABS)	2,108	7	(14)	2,101	1,925	10	(12)	1,923
Of which: Loans to non-private individuals - CLO-type bonds	1,757	6	(2)	1,761	1,509	9	(5)	1,513
Loans to non-individuals - SBA-guaranteed securities	250	-	(12)	238	330	-	(7)	323
Total available-for-sale mortgage-backed and asset-backed bonds	7,234	27	(86)	7,175	6,932	87	(23)	6,996

(a) Amounts carried to the capital reserve as part of other comprehensive income, net, after tax effect.

Note 12 - Securities (cont.)

Additional Information on Mortgage-Backed and Asset-Backed Held-for-Trading Securities

	December 31							
	2021				2020			
	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value	Amortized cost	Unrealized gains from adjustments to fair value[(a)]	Unrealized losses from adjustments to fair value[(a)]	Fair value
	In NIS millions							
Mortgage-backed securities (MBS)								
Pass-through securities	**2**	**-**	**-**	**2**	2	-	-	2
Of which: Securities issued by FNMA or FHLMC	**2**	**-**	**-**	**2**	2	-	-	2
Other mortgage-backed securities (including CMO and Stripped MBS)	**25**	**-**	**(1)**	**24**	37	-	(3)	34
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**-**	**-**	**-**	**-**	36	-	(3)	33
Total mortgage-backed securities (MBS)	**27**	**-**	**(1)**	**26**	39	-	(3)	36
Total asset-backed securities (ABS)	**17**	**-**	**(1)**	**16**	46	-	(2)	44
Total mortgage-backed and asset-backed held-for-trading securities	**44**	**-**	**(2)**	**42**	85	-	(5)	80

(a) Gains (losses) carried to the income statement.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts[(a)], Loans to the Public and Balance of Loan Loss Provision

	December 31 2021					
	Loans to the public					
	Middle-market	Housing	Private indi-viduals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debt:[(a)]						
Examined on a specific basis	172,551	-	914	173,465	15,554	189,019
Examined on a collective basis[1]	43,157	103,688	27,081	173,926	1,708	175,634
[1]Of which: by extent of arrears	466[(c)]	103,610	-	104,076	-	104,076
Total debt[(a)2]	215,708	103,688	27,995	347,391	17,262	364,653
[2]Of which:						
Debt restructuring	1,918	-	351	2,269	-	2,269
Other impaired debts	640	20	20	680	-[(d)]	680
Total impaired debts	2,558	20	371	2,949	-	2,949
Debts in arrears of 90 days or more	284	609	48	941	-	941
Other troubled debts	2,332	-	219	2,551	-	2,551
Total troubled debts	5,174	629	638	6,441	-	6,441
Balance of loan loss provision in respect of debts:[(a)]						
Examined on a specific basis	2,641	-	295	2,936	3	2,939
Examined on a collective basis[3]	671	489	416	1,576	-	1,576
[3]Of which: By extent of arrears	1	489[(b)]	-	490	-	490
Total loan loss provision[4]	3,312	489	711	4,512	3	4,515
[4]Of which: For impaired debts	703	5	234	942	-[(d)]	942

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 360 million.

(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.

(d) Balance of less than NIS 1 million.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)], Loans to the Public and Balance of Loan Loss Provision (cont.)

	December 31 2020					
	Loans to the public					
	Middle-market	Housing	Private indivi-duals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debt:[(a)]						
Examined on a specific basis	143,317	24	786	144,127	10,879	155,006
Examined on a collective basis[1]	40,741	90,365	25,398	156,504	158	156,662
[1]Of which: by extent of arrears	624[(c)]	90,237	-	90,861	-	90,861
Total debt[(a)2]	184,058	90,389	26,184	300,631	11,037	311,668
[2]Of which:						
Debt restructuring	2,324	-	317	2,641	-	2,641
Other impaired debts	1,308	50	20	1,378	15	1,393
Total impaired debts	3,632	50	337	4,019	15	4,034
Debts in arrears of 90 days or more	56	720	38	814	-	814
Other troubled debts	3,525	2	266	3,793	-	3,793
Total troubled debts	7,213	772	641	8,626	15	8,641
Balance of loan loss provision in respect of debts:[(a)]						
Examined on a specific basis	3,135[(e)]	1	228	3,364	3	3,367
Examined on a collective basis[3]	747[(e)]	635	544	1,926	-	1,926
[3]Of which: By extent of arrears	-[(d)]	634[(b)]	-	634	-	634
Total loan loss provision[4]	3,882	636	772	5,290	3	5,293
[4]Of which: For impaired debts	911[(e)]	7	212	1,130	-[(d)]	1,130

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 460 million.
(c) Including outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Balance of less than NIS 1 million.
(e) Reclassified.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Outstanding Loan Loss Provision

	For the year ended December 31 2021					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	**4,284**	**636**	**792**	**5,712**	**3**	**5,715**
Loan loss income	**(622)**	**(145)**	**(45)**	**(812)**	**-**	**(812)**
Charge-offs	**(472)**	**(6)**	**(279)**	**(757)**	**-**	**(757)**
Collection of debts written off in previous years	**584**	**4**	**259**	**847**	**-**	**847**
Net charge-offs	**112**	**(2)**	**(20)**	**90**	**-**	**90**
Adjustments from translation of Financial Statements	**(9)**	**-**	**-**	**(9)**	**-**	**(9)**
Balance of loan loss provision as at year end[1]	**3,765**	**489**	**727**	**4,981**	**3**	**4,984**
[1]Of which: in respect of off-balance-sheet credit instruments	**453**	**-**	**16**	**469**	**-**	**469**

	For the year ended December 31 2020					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,590	467	657	3,714	2	3,716
Loan loss expenses	2,105	175	271	2,551	1	2,552
Charge-offs	(816)	(6)	(383)	(1,205)	-	(1,205)
Collection of debts written off in previous years	429	-	247	676	-	676
Net charge-offs	(387)	(6)	(136)	(529)	-	(529)
Adjustments from translation of Financial Statements	(24)	-	-	(24)	-	(24)
Balance of loan loss provision as at year end[1]	4,284	636	792	5,712	3	5,715
[1]Of which: in respect of off-balance-sheet credit instruments	402	-	20	422	-	422

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Outstanding Loan Loss Provision (cont.)

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Loan-loss expenses (income)	454	22	134	610	(1)	609
Charge-offs	(967)	(29)	(385)	(1,381)	-	(1,381)
Collection of debts written off in previous years	439	-	275	714	-	714
Net charge-offs	(528)	(29)	(110)	(667)	-	(667)
Adjustments from translation of Financial Statements	(16)	-	-	(16)	-	(16)
Disposal of an investment in a previously-consolidated subsidiary	(20)	(5)	(1)	(26)	-	(26)
Balance of loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: in respect of off-balance-sheet credit instruments	366	-	20	386	-	386

Note 14 - Loans to Governments

	December 31	
	2021	2020
	In NIS millions	
Loans to the Israeli Government	**205**	9
Loans to foreign governments	**735**	623
Total loans to governments	**940**	632

Note 15 - Investments in Investee Companies and Details Thereof

A. Composition of Associates

	December 31	
	2021	2020
	Associates	
	In NIS millions	
Total investments in equity securities accounted for by the equity method (including goodwill)	**1,113**	795
Of which – Gains accrued since the acquisition date	**38**	152
Items accrued in equity since the acquisition date:		
Adjustments for associates	**(34)**	(23)
Information regarding goodwill:		
Net original amount	**226**[(a)]	197[(a)]
Carrying value	**164**	135

(a) Attribution of the acquisition price to assets and liabilities acquired by the subsidiary ceases following the reporting date.

Details Regarding the Carrying Amounts and the Market Value of Tradable Investments

	December 31			
	2021		2020	
	Carrying amount	Market value	Carrying amount	Market value
	In NIS millions			
Teralight Ltd.	**132**	**83**	-	-
Sunflower Sustainable Investments Ltd.	**68**	**58**	-	-
Total	**200**	**141**	-	-

B. Group's Share in Associates' Profits or Losses

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Group's share in associates' profits (losses)	**102**	(19)	(19)
Provision for deferred taxes	**(1)**	6	4
Group's share in associates' profits (losses) after tax effect	**101**	(13)	(15)

Note 15 - Investments in Investees and Details Thereof (cont.)

C. Details Regarding Major Investees

Consolidated subsidiaries[(a)]

		December 31			
		2021	2020	**2021**	2020
		Share in equity conferring rights to receive profits		Share in voting rights	
Company	Information about the company	In %			
In Israel					
Leumi Partners Ltd.[(c)]	Business and financial services	**100.0**	100.0	**100.0**	100.0
Leumitech Ltd.[(d)]	Loans to high-tech companies	**99.8**	99.8	**99.8**	99.8
Leumi Capital Market Services Ltd.	Operating services provided to provident and mutual funds	**100.0**	100.0	**100.0**	100.0
Abroad					
Bank Leumi of Israel Corporation[(e)]	Holding company – registered in the USA	**84.7**	84.7	**84.7**	84.7
Bank Leumi USA[(e)]	General banking – registered in the USA	**84.6**	84.6	**84.6**	84.6
Bank Leumi (UK) PLC[(f)]	General banking – registered in the UK	**100.0**	100.0	**100.0**	100.0
Leumi Re Limited	Insurance – registered in the Channel Islands	**100.0**	100.0	**100.0**	100.0

(a) Data regarding consolidated companies reflect the Bank's investment therein net of each company's investment in other Group companies and the Bank's share in their results of operations net of each company's share in the financial performance of operations of other Group companies in respect of said investments.
(b) Other equity investments include capital notes.
(c) The Bank's share in a capital reserve in respect of a benefit arising from NIS 190 million in controlling shareholders' loans (2020 – NIS 190 million).
(d) The Bank's share in a capital reserve in respect of a benefit arising from NIS 82 million in controlling shareholders' loans (2020 – NIS 82 million).
(e) The functional currency of Bank Leumi USA and Bank Leumi of Israel Corporation is other than NIS. Please see Note 1D.
For more information regarding the merger with Valley, see Note 36G.
(f) For additional information on restructuring at BLUK, please see Note 36J.

Investment in equity securities accounted for according to the equity method		Other equity investments(b)		Contribution to net income (loss) attributable to the Bank's shareholders		Other comprehensive income (loss)		Guarantees on behalf of the Company in favor of entities outside the Company	
2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
In NIS millions									
4,293	3,587	**224**	222	**712**	100	**(6)**	2	**971**	696
1,031	1,024	**-**	-	**4**	3	**3**	2	**-**	-
38	33	**-**	-	**5**	3	**-**	-	**-**	-
73	82	**-**	-	**(9)**	(2)	**-**	(5)	**-**	-
2,270	2,219	**-**	-	**221**	113	**(170)**	(114)	**-**	-
963	920	**225**	235	**30**	(85)	**13**	(14)	**-**	-
60	50	**-**	-	**10**	(1)	**-**	-	**159**	-

Note 16 - Buildings and Equipment

A. Composition

	Buildings and land[(a)]	Equipment, furniture and vehicles	Software costs[(b)]	Total
	In NIS millions			
Cost of assets				
Balance as at December 31 2019	2,948	3,513	3,857	10,318
Additions	64	104	426	594
Derecognitions	(21)	(82)	(90)	(193)
Adjustments from translation of financial statements	(22)	(14)	(16)	(52)
Balance as at December 31 2020	2,969	3,521	4,177	10,667
Additions	**45**	**79**	**419**	**543**
Derecognitions	**(127)**	**(74)**	**(72)**	**(273)**
Adjustments from translation of financial statements	**(9)**	**(6)**	**(7)**	**(22)**
Balance as at December 31 2021	**2,878**	**3,520**	**4,517**	**10,915**
Depreciation and impairment losses				
Balance as at December 31 2019	1,599	2,699	2,977	7,275
Depreciation for the year	63	118	497	678
Derecognitions	(16)	(80)	(79)	(175)
Adjustments from translation of financial statements	(16)	(15)	(12)	(43)
Balance as at December 31 2020	1,630	2,722	3,383	7,735
Depreciation for the year	**56**	**115**	**523**	**694**
Derecognitions	**(76)**	**(70)**	**(67)**	**(213)**
Adjustments from translation of Financial Statements	**(8)**	**(7)**	**(6)**	**(21)**
Balance as at December 31 2021	**1,602**	**2,760**	**3,833**	**8,195**
Book value as at December 31 2019	1,349	814	880	3,043
Book value as at December 31 2020	1,339	799	794	2,932
Book value as at December 31 2021	**1,276**	**760**	**684**	**2,720**

(a) Including installations and leasehold improvements.
(b) Including expenses capitalized in connection with costs of development of internal-use software totaling NIS 575 million as of December 31 2021 (2020 – NIS 581 million).

B. Average Depreciation Rate

	December 31	
	2021	2020
Buildings and land	**2.26%**	2.35%
Equipment, furniture and vehicles	**13.19%**	12.78%
Software costs	**26.16%**	22.84%

Note 16 - Buildings and Equipment (cont.)

C. Buildings and land not used by the Group, mainly leased buildings, are stated in the balance sheet at NIS 20 million (December 31 2020 – NIS 32 million).

D. Assets amounting to NIS 44 million (December 31 2020 – NIS 49 million) have not been registered in the Bank's name with the Land Registry Office, the main reasons being the lack of land registry arrangements in the area ("parcellation") and a building project that was not registered as a condominium by the contractor/developer.

E. The book balance of held-for-sale buildings and equipment as of December 31 2021 is NIS 13 million (December 31 2020 – NIS 61 million). No loss is expected from disposal of available-for-sale buildings and equipment in excess of the provisions made in respect thereof.

F. The book balance of property, plant & equipment under construction totaled as at December 31 2021 NIS 16 million (December 31 2020 - NIS 143 million).

G. The buildings and equipment item includes leasehold improvements and lease rights, including payments in respect of some of the buildings on leased land.

H. Information on Leases

1. Expenses for leases

	December 31	
	2021	2020
	In NIS millions	
Expenses for operating leases	**149**	169
Expenses short-term leases	**1**	1
Expenses for variable lease payments	**1**	2
Total expenses for leases	**151**	172

2. Additional Information on Leases

	December 31	
	2021	2020
	In NIS millions	
Cash paid for balances included in measurement of lease liabilities:		
Cash flow for operating activities for operating leases	**143**	170
Right of use assets recognized for new operating leases	**81**	42
Remaining weighted average term (in years):		
For operating leases	**4.1**	4.5
Weighted average discount rate (in %):		
For operating leases	**1.00**	1.00

Note 16 - Buildings and Equipment (cont.)

3. Undiscounted cash flows and liabilities for operating leases by repayment term

	December 31			
	2021		2020	
	Undiscounted cash flows	Lease liability	Undiscounted cash flows	Lease liability
Up to one year	**146**	**146**	150	148
Over one year and up to two years	**112**	**109**	126	124
Over two years and up to 3 years	**88**	**86**	96	94
Over 3 years and up to 4 years	**79**	**76**	84	81
Over 4 years and up to 5 years	**71**	**68**	80	77
Over 5 years	**344**	**317**	443	407
Total	**840**	**802**	979	931

Note 17 - Goodwill

	Goodwill – total[(a)]
	In NIS millions
Cost	
As at December 31 2019	16
Adjustments from translation of Financial Statements	(1)
As at December 31 2020	15
Adjustments from translation of Financial Statements	**(1)**
As at December 31 2021	**14**
Amortization and impairment losses	
As at December 31 2019	-
Amortization for the year	-
As at December 31 2020	-
Amortization for the year	**-**
As at December 31 2021	**-**
Amortized balance as at December 31 2021	**14**
Book value	
As at December 31 2019	16
As at December 31 2020	15
As at December 31 2021	**14**

(a) Goodwill by regulatory operating segments and Management Approach attributable to foreign operations.

Note 18 - Other Assets

	December 31	
	2021	2020
	In NIS millions	
Deferred tax receivable, net – please see Note 8(D)	5,857	6,258
Excess of advance tax payments over current provisions	35	42
Central severance pay fund	202	110
Assets received for repaid loans	9	6
Balance of amortizable issuance expenses of bonds, promissory notes and subordinated bonds	52	51
Assets for activity in the MAOF Clearing House[(a)]	18	37
Value of insurance policy for foreign office	393	369
Prepaid expenses	194	202
Receivables	189	169
Other receivables and debt balances	239	1,385
Right of use assets for operating lease[(b)]	797	929
Total other assets	7,985	9,558

(a) Stated at fair value.

(b) As of January 1 2020, following the application of Topic 842 to the FASB Accounting Standards Codification, the Bank first applied a right-of-use asset in the amount of the lease liability plus initial costs and lease prepayments, less incentives received. For information regarding leases, please see Note 1.N.

Note 19 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	December 31	
	2021	2020
	In NIS millions	
In Israel		
Demand deposits		
Noninterest bearing deposits	**161,327**	116,042
Interest-bearing deposits	**210,393**	176,276
Total demand deposits	**371,720**	292,318
Fixed deposits	**140,596**	132,325
Total deposits in Israel[1]	**512,316**	424,643
Outside Israel		
Demand deposits		
Noninterest bearing deposits	**14,737**	11,363
Interest-bearing deposits	**6,677**	6,713
Total demand deposits	**21,414**	18,076
Fixed deposits	**3,539**	4,312
Total deposits outside Israel	**24,953**	22,388
Total deposits by the public	**537,269**	447,031
[1]Of which:		
Deposits by private individuals	**146,235**	147,228
Deposits by institutional entities	**127,883**	80,499
Deposits by corporations and others	**238,198**	196,916

B. Deposits by the Public by Amount

	December 31	
	2021	2020
Maximum deposit	In NIS millions	
Up to 1	**120,656**	117,472
Over 1 and up to 10	**111,186**	108,612
Over 10 and up to 100	**86,924**	77,759
Over 100 and up to 500	**65,715**	54,650
Over 500	**152,788**	88,538
Total	**537,269**	447,031

Note 20 - Deposits by Banks

	December 31	
	2021	2020
	In NIS millions	
In Israel		
Commercial banks:		
Demand deposits	**7,152**	5,744
Fixed deposits	**477**	-
Acceptances	**531**	331
Central banks:		
Demand deposits	**216**	135
Fixed deposits	**16,902**	8,777
Outside Israel		
Commercial banks:		
Demand deposits	**6**	2
Fixed deposits	**-**	89
Acceptances	**39**	15
Central banks:		
Demand deposits	**47**	50
Fixed deposits	**-**	-
Total deposits by banks	**25,370**	15,143

Note 21 - Bonds, Promissory Notes and Subordinated Bonds[(a)]

	Average duration[(b)]	Internal rate of return[(c)]	December 31	
			2021	2020
	Years	In %	In NIS millions	
Non-convertible bonds, promissory notes and capital notes in NIS:				
In Israeli currency unlinked to the CPI	**2.1**	**2.4**	**2,877**	3,688
CPI-linked	**4.0**	**0.4**	**6,528**	5,719
Total[1]			**9,405**	9,407
[1]Of which: held-for-trading	**-**	**-**	**8,834**	8,847
Convertible bonds:				
In Israeli currency unlinked to the CPI	**-**	**-**	**-**	926
CPI-linked	**2.9**[(d)]	**2.2**	**3,659**	3,525
In US dollars	**3.8**[(d)]	**3.3**	**2,364**	2,445
Total bonds, promissory notes and subordinated bonds			**15,428**	16,303
Of which subordinated bonds included in Tier 2 capital[(e)]			**6,072**	8,438

(a) The balance of discount net of the premium on bonds and subordinated bonds not yet carried to the income statement was offset against the bonds.

(b) Average duration is the average of the payments periods weighted by the projected cash flows discounted at the internal rate of return.

(c) Internal rate of return is an interest rate that discounts the projected payments flow to the book balance stated in the financial statements.

(d) The average duration as of interest rate change date is based on calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In subordinated bonds, in CPI-linked - (0.6) years, in USD - 3.65 years (as at December 31 2020 - unlinked - 0.1 years, CPI-linked - 3.5 years, and USD - 4.5 years).

(e) Tier 2 capital according to Basel III's transitional provisions.

Comment:
For more information, please see Note 25A.

Note 22 - Other Liabilities

	December 31	
	2021	2020
	In NIS millions	
Deferred tax reserve, net – please see Note 8(D)	**86**	86
Excess of current provisions for income tax over advances paid	**1,178**	1,271
Excess of liabilities for employee benefits over plan assets – please see Note 23(H)	**11,470**	11,546
Prepaid income	**403**	339
Payables for credit card activities	**987**	4,274
Accrued expenses for salaries and related expenses	**876**	545
Market value of securities sold short	**441**	220
Loan loss provision for off-balance sheet items	**469**	422
Accrued expenses	**276**	260
Other provisions for employee benefits	**429**	428
Provision for paid leave	**227**	232
Accrued jubilee vacation leave	**30**	36
Liabilities for activity in the MAOF Clearing House[(a)]	**18**	37
Other payables and credit balances	**510**	708
Liabilities for operating leases[(b)]	**802**	931
Total other liabilities	**18,202**	21,335

(a) Stated at fair value.
(b) As at January 1 2020 following the application of Topic 842, "Leases", a lease liability was recognized for the first time at the present value amount of future lease payments. For information regarding leases, please see Note 1.N.For information on liabilities for operating leases by repayment terms, please see Note 16.H.

Note 23 - Employee Benefits

A. Pension and Severance Pay

1. Overview

Ongoing contributions for an external pension plan have been made for employees who began working with the Bank as from January 1 1999 and have not yet received permanent employee status as at the signing of the 2000 special external pension agreement (hereinafter - “Generation B Employees”). The Bank shall have no pension obligations in respect of these employees, except for supplementary contributions towards severance pay, in certain cases, pursuant to the agreement.

Employees who started working for the Bank before January 1 1999 and were granted permanent employee status before the date of signing the aforementioned agreement (hereinafter - "Generation A Employees"), and who retire from the Bank at retirement age, except those mentioned above and in Section B. below, may choose between receiving severance pay and pension savings or a pension from the Bank while waiving the severance pay and savings, all subject to the provisions of the law. Entitlement to a pension is calculated at a rate of 40 percent in respect of the first fifteen years of employment, i.e. 2.67 percent per annum, and 1.5 percent for each additional year, up to a maximum rate of 70 percent.

The pension reserves are based on an actuarial calculation that factors in the retirement age pursuant to studies and based on past experience. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, as to the rate of utilization of pension benefits and the rate of withdrawal of severance pay and pension savings, disability benefits, etc. The calculation also factors in a nominal pay increase, which is based on past experience and varies according to the employee’s age.

The liability is accrued on a straight-line basis until the early retirement age (the average of actual retirement ages of Generation A Employees in recent years, both men and women). After this date, additional benefits attributed to subsequent years are accrued based on the formula of Generation A Employees’ benefit plan.

The actuarial calculation is based on revised directives of the Chief Actuary at the Ministry of Finance regarding mortality rates, published in November 2019, which were established for insurance companies by the Commissioner of the Capital Market, Insurance and Savings and applied to the Bank’s employees.

The employee benefits liability amount is affected by several key variables, which include market variables (discount rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employees' behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables. For example, in case of a sharp interest rate hike in the Israeli economy, government bond yields may rise (lowering the pension liability amounts), causing the number of employees opting for the pension fund track to decrease (a decision which will also decrease the Bank's pension liability amounts).

The Bank's actuarial liability for pension was calculated based on the yield on Israeli Government bonds plus an average spread on corporate bonds rated AA or higher as of the reporting date. It was decided that the calculation of the spread will be based on spreads of US corporate bonds. In 2021, most of the change in the pension liability stems from interest rate changes and inflation.

The Bank's pension liability for retired employees who have opted for pension and the Bank’s liability mentioned in Section B. below are covered by a pension provision calculated according to the present value of the liability, as calculated by an actuary.

2. Benefits for “Leumi Alumni”

In addition to their pension and/or pension savings and severance pay, “Leumi Alumni” are entitled to further benefits comprising mainly holiday gifts, as well as tuition for the retiree’s children and medical tests.

Note 23 - Employee Benefits (cont.)

Leumi Alumni are former employees who left their jobs at the Bank after 25 years, or whose age is at least 50 and have left the Bank after 15 years of service.

B. Employment and Retirement Terms and Conditions of Employees with Personal Employment Contracts

1. Overview

The accepted terms and conditions of employment and retirement for employees with personal contracts with the Bank include fixed compensation components, such as a monthly salary, social benefits, related benefits, such as study fund, health insurance, insurance arrangements, exemption and indemnification, as well as terms and conditions of retirement and severance and termination of employment, such as paid early notice. Employees who have personal contracts with the Bank also enjoy variable compensation components, such as any award that is not given on a regular basis, i.e., annual performance bonus, personal mission bonus, and special bonus for special events. Key employees who are not officers may be entitled to additional bonuses such as retention bonus and outstanding excellence award. Members of Bank's management may also be entitled to an adaptation bonus of up to 6 monthly salaries on termination of their employment by the Bank. In addition, employees with personal contracts at the Bank may be required to sign a non-compete clause of up to 6 months from leaving the Bank.

Retirement and pension arrangements for employees with personal contracts

The retirement and pension benefits of Bank employees with personal contracts are determined according to their classification into the Bank's employment period categories and according to the circumstances under which their employment ended (such as redundancy, resignation or retirement). The Bank's retirement arrangement with these employees includes entitlement to their severance pay fund, in accordance with Section 14 of the Severance Pay Law, 1963 or to severance pay ranging between 100 percent and 250 percent, in addition to the funds accrued in their pension savings, and the possibility, in certain cases, of receiving a temporary monthly annuity. This right is in lieu of the employees' legal severance pay benefits and includes the funds and benefits accrued in the employee's severance pay funds during his/her employment period (including any gains).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the terms and conditions of the personal contract), Generation A Employees may waive the benefits and funds which they have accrued in their severance pay and pension savings (in respect of Generation A benefits) in return for being eligible for a funded pension from the Bank (hereinafter - the "Pension Annuity"). Employees are eligible for a Pension Annuity on reaching retirement age or, alternatively - subject to meeting seniority and age criteria - to receive the Pension Annuity immediately or at a later stage (in full or in part, as relevant).

Some contracts stipulate that, in case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the personal contract's terms and conditions) and subject to meeting certain conditions, including seniority and/or age conditions, some Generation B employees may opt to receive an Interim Annuity from the Bank (in full or in part, as relevant) in lieu of severance pay, until they become eligible for the amount saved pursuant to the pension fund's Articles of Association and the provisions of the law.

The percentage of the Pension Annuity or interim annuity, as relevant, is 2.67 percent per annum for the first 15 years of employment. Subsequently – 1.5 percent per annum for each year until a personal contract is signed; 2 percent per annum for each year of employment under a personal contract and 2.5 percent per annum for each year of service as member of management, up to a maximum of 70 percent. Eligibility for Pension Annuity from the Bank is subject to the employee having all the benefits and funds accrued in the pension savings and severance pay fund (in respect of Generation A benefits) in his/her name available as the source from which the Pension Annuity will be paid by the Bank as aforesaid.

Note 23 - Employee Benefits (cont.)

The maximum additional expense incurred by the Bank, assuming that the employees included in this section are made redundant effective immediately and according to the eligibility for each period, shall total NIS 128 million (including salary tax payable on pension) (2020 – NIS 137 million). The decrease is due to changes in assumptions regarding the date and likelihood of termination.

2. President and CEO

Mr. Hanan Friedman serves as an officer with the Bank as of September 1 2014, and as the Bank's President and CEO from November 1 2019 (the "Effective Date"). On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO, which become effective on the Effective Date. The service and employment terms and conditions of the President and CEO are in line with the Bank's Officer Compensation Policy, and in line with Directive 301A and the limitations prescribed in the Compensation Limitation Law.

The President and CEO's service and employment terms and conditions:

1. **Salary** – as from the Effective Date, the President and CEO is entitled to a monthly salary totaling NIS 228,000, linked to the increase in the known Consumer Price Index (CPI) on the Effective Date[1] and may also be linked to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").

   The President and CEO may be eligible, subject to the approval of the Audit Committee and the Board of Directors, to an additional fixed compensation component that will be calculated such that the total amount of the compensation components payable to the President and CEO (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set forth in Section 2(b) of the Compensation Limitation Law.[2] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

2. **Termination of employment by giving advance notice** – The employment term of the President and CEO's employment agreement is indefinite. Each of the parties may terminate the agreement by giving a 6-month advance notice.

3. **Contributions and deductions for pension, severance pay and social benefits** - the Bank shall make contributions towards pension and disability insurance for the President and CEO; these contributions, amounting to 7.5 percent of the President and CEO's Salary, will be transferred, on a monthly basis, to managers' insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time; the Bank will also deduct an additional 6 percent of the President and CEO's Salary in respect of pension contributions (hereinafter - "Pension Contributions"). The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund, at a rate of $8^1/_3$ percent of the Salary[3] of the President and CEO; the Bank will also make monthly contributions to a study fund for the President and CEO at a rate of 7.5 percent of the Salary; at the same time, the Bank shall deduct a total of 2.5 percent, at the expense of the President and CEO, from the Salary, up to the maximum tax deductible amount and shall remit it to a study fund.

4. **Retirement terms and conditions -** as aforesaid, the President and CEO serves as an officer with the Bank as of September 1 2014. On the date on which the Compensation Limitation Law entered into effect, on October 12 2016 (the "Effective Date") the service and employment terms and conditions

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1 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

2 It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set forth in the Compensation Limitation Law. It should also be noted that since the total cost of the President and CEO's compensation exceeds the ceiling set forth in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set forth in Section 32(17) of the Income Tax Ordinance.

3 Including all components in respect of which severance pay is payable by law.

Note 23 - Employee Benefits (cont.)

of office and employment of the incumbent Bank officers according to the provisions of the said Law were updated, including the service and employment terms and conditions of Mr. Friedman, including his benefits in the event of retirement. Therefore, in the event of retirement, the President and CEO will be entitled to retirement benefits for his service term with the Bank from the Effective Date of his service with the Bank until the Effective Date, and to retirement benefits for his terms of office with the Bank from the Effective Date until the termination of his employment relations with the Bank, as specified below: In the event that the employment relations between the President and CEO and the Bank are severed (dismissal, resignation or retirement), the President and CEO will be entitled to the following benefits (cumulatively):

(1) For the term of the President and CEO's employment as of the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 100 percent [4] of the last known monthly Salary on the termination of employment relations with the Bank multiplied by the number of years from the Effective Date until the termination date of the employment relations as aforesaid, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO in respect of the President and CEO's term of employment during the abovementioned term (from the Effective Date until the termination date of the employment relations).

(2) For the term of the President and CEO's employment until the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 250 percent of the monthly Salary immediately prior to the Effective Date multiplied by the number of years he will have been employed by the Bank until the Effective Date, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO for the President and CEO's term of employment during the above period (until the Effective Date).[5] In addition, the President and CEO will also be entitled to a bonus in the amount of the adaptation bonus allocated to him in the Bank's books immediately prior to the Effective Date.[6]

5. **Non-compete** - The President and CEO will undertake towards the Bank to maintain a 6 month non-compete period from the date of termination of his office (hereinafter - the “Non-Compete Period"). During the Non-Compete Period the President and CEO will be entitled to receive a Salary and all other related benefits, excluding contributions for social benefits.

6. **Exemption, insurance and indemnification -** The President and CEO will be entitled to exemption, insurance and indemnification of officers, as is customary at the Bank, from time to time.

7. **Paid leave, convalescence pay and sick leave** – as normally paid to the Bank’s senior officers according to Bank’s procedures.

8. **Related benefits** - The President and CEO is entitled to benefits as is customary for senior executives of the Bank.

9. **Provisions regarding annual bonuses -** The President and CEO will not be entitled to an annual variable bonus as of the Effective Date.

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4 Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made during that period, or of an amount equal to the amount of those contributions.

5 Entitlement to severance pay as aforesaid is subject to the transfer to the Bank of the contributions to the severance pay fund.

6 Six times the monthly Salary immediately prior to the Effective Date.

Note 23 - Employee Benefits (cont.)

3. The Bank's Chairman of the Board

Dr. Haj Yehia serves as a director of the Bank as of September 30 2014, and began serving as Chairman of the Board (the "Chairman" or "Chairman of the Board") on July 22 2019 (in this Section, the "Effective Date").

On December 23 2019, the Bank's general meeting approved the service terms and conditions of the Bank's President and CEO, which become effective on the Effective Date. The service terms and conditions of the Chairman of the Board as aforesaid are in compliance with the Bank's officer compensation policy and in accordance with Directive 301A.

The Chairman of the Board's service terms and conditions:

As of September 2021 (the "**Transition Date**"), the Chairman of the Board began providing services to the Bank through a management company he owns, against a tax invoice provided to the Bank, and does not receive related benefits from the Bank. In return for these services, the Chairman is entitled to a consideration of NIS 3.3 million per annum (NIS 275 thousand per month), with added VAT; the amount is linked to the increase in the known CPI as at the Effective Date,[7] and may be linked to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions.

Term of service and end thereof - The terms and conditions of service of the Chairman of the Board (please see above and below) apply as of the Effective Date (the "Tenure Period") and shall be in effect as long as he serves as the Bank's Chairman of the Board, or as required under the directive of the Banking Supervision Department in this matter. During the Tenure Period, each of the parties may terminate the agreement by giving a 6-month advance notice.

According to the service terms and conditions of the Chairman, the latter undertook towards the Bank to maintain a 6 month non-compete period after the date of termination of his office in exchange for a consideration (in accordance with the approved service terms and conditions). The Chairman will also be entitled to exemption, insurance and indemnification arrangements of officers, as is the practice in the Bank, from time to time, as well as to benefits as the practice in the Bank, provided that the total annual cost for the Bank for the entire terms and conditions of service shall not exceed the above annual consideration.

It is clarified that the Chairman of the Board is not entitled to a variable yearly bonus.

The Chairman of the Board's service terms and conditions until the Transition Date:

1. **Salary** – as of the Effective Date until the Transition Date, the Chairman of the Board was entitled to a monthly salary totaling NIS 228,000, linked to the increase in the known index as at the Effective Date[8] as well as to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").
2. **Fixed consideration, in accordance with the provisions of the law** - as of the Transition Date, the Chairman was entitled, subject to the approval of the Audit Committee and Board of Directors, to an additional compensation component; the component amount was set such that the total amount of the compensation components payable to the Chairman of the Board (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set forth in Section 2(b) of the Compensation Limitation Law.[9] No provisions for social

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7 It is hereby clarified, that if the CPI decreases, the consideration amount will not be decreased accordingly.

8 It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

9 It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set forth in the Compensation Limitation Law. It should also be noted that since the total cost of the Chairman of the Board's compensation exceeds the ceiling set forth in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set out in Section 32(17) of the Income Tax Ordinance.

Note 23 - Employee Benefits (cont.)

benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

3. **Contributions and deductions for pension, severance pay and social benefits**

   3.1. Until the Transition Date, the Bank made contributions towards pension[10] for the Chairman of the Board, which were remitted each month to managers' insurance fund, provident funds and/or pension arrangement, as agreed by the parties, from time to time, at a rate of 7.5 percent; the Bank also deducted another 6 percent from the Chairman of the Board's Salary for pension (hereinafter - the "Pension Contributions").

   3.2. Until the Transition Date, the Bank made contributions towards severance pay, which were transferred, on a monthly basis, to a severance pay fund; the amount of the contributions will be equal to $8^{1/3}$ percent[11] of the Chairman of the Board's Salary.

   3.3. Until the Transition Date, the Bank made monthly contributions to a study fund in respect of the Chairman of the Board at an amount equal to 7.5 percent of the Salary; at the same time, the Bank deducted a total equal to 2.5 percent from the Salary and remitted the amount to a study fund.

4. In respect of the period up to the Transition Date, the Chairman of the Board will be entitled to severance pay amounting to 100 percent[12] of his last monthly salary (immediately prior to the Transition Date) multiplied by the number of years (or any portion thereof) of service as the Chairman of the Board during the employment period until the Transition Date, plus the funds and benefits accrued in the provident funds in respect of severance pay contributions by the Bank and the Chairman of the Board in respect of his service during the employment period until the Transition Date.

5. In respect of the period up to the Transition Date, the Chairman of the Board will be entitled to benefits such as leave days, convalescence pay, sick days, related benefits, as is the practice for senior officers of the Bank.

C. Provision for Paid Leave

The "other liabilities" line item includes a provision in respect of unutilized paid leave, calculated based on the last salary plus related benefits. The Bank also provides for sick leave that will be converted to paid leave, calculated on an actuarial basis. As of December 31 2021, these provisions amount to NIS 227 million (December 31 2020 – NIS 232 million).

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10 Including disability insurance.
11 Including all components in respect of which severance pay is payable by law.
12 Entitlement to severance pay as aforesaid is subject to the transfer to the Bank of the contributions for severance pay made or an amount equal to the amount of such contributions.

Note 23 - Employee Benefits (cont.)

D. Pension and Severance Pay for the Bank's Employees

The Bank pays contributions towards severance pay and pension for Generation A Employees into the Bank employees' provident fund towards severance pay and pension, which is administered by a management company held by fund's members.

Retirement and pension benefits are determined according to a classification of different employment periods at the Bank, and as outlined in Section a.1 above, Generation B Employees are entitled to ongoing pension and provident fund contributions, for which the Bank has no pension liability, except for supplementary severance pay. Generation A employees - on reaching retirement age, under certain circumstances - have the right to either receive severance pay and compensation from the Bank or a pension annuity, or a combination of the above, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees. For these employees, the Bank deposits contributions in the employees' provident, pension and severance pay funds, which are managed by a management company held by the fund's members. During 2019, the Bank entered into an agreement with additional institutional entities to transfer the severance pay and pension funds which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a pension to a paying fund. The Bank also entered into an agreement to purchase an insurance policy for the retirees, payable by the Bank.

E. The Bank's Officer Compensation Policy

On December 23 2019, the Bank's general meeting approved the revised compensation policy for the Bank's officers (hereinafter - the "Compensation Policy"). The Compensation Policy shall be in force from the beginning of 2020 to the end of 2022. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officers' service and employment terms and conditions, on Proper Conduct of Banking Business Directive No. 301A regarding compensation policy of a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy sets out a framework for the compensation of the Bank's officers and refers, among other things, to fixed compensation components, which is the principal compensation paid to officers and includes: A fixed salary, social benefits, related benefits, as well as severance and retirement benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as a measurable annual performance bonus comprised of a bonus component based on the Bank's return on equity, based on the weighted earnings per share of the Bank compared to the return of the TA-Banks Index and a bonus component based on the Bank's weighted efficiency ratio; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer's areas of responsibility; and a retention bonus. It should be noted that Board members, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank's President and CEO is not entitled to an annual variable bonus, unless decided otherwise by the Bank's competent organs.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; (under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer).

The Bank's Board of Directors may also reduce the amount of the variable annual bonus, after obtaining the approval of the Compensation Committee, at its discretion. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment to officers of variable bonus, whose payment is subject to the Bank's meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date.

Note 23 - Employee Benefits (cont.)

The Compensation Policy includes various mechanisms and arrangements designed to allow the Compensation Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank’s general meeting for every such revision. Such revisions will be made when, in the opinion of the Compensation Committee and the Bank’s Board of Directors, they are justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Compensation Committee and the Board of Directors will be entitled to link the lowest compensation paid by the Bank for purposes of Section 2(B) of the Compensation Limitation Law to the maximum compensation of Bank’s officeholders such that the total compensation amount to officeholders (excluding compensation the payment of which is not expected under generally accepted accounting principles) and the lowest compensation paid by the Bank at that time will increase by the same rate. In addition, according to the Compensation Policy, the compensation of any of the officers at the Bank may increase according to a decision by the Compensation Committee and Board of Directors beyond the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance.

F. Compensation Policy for Key Employees

A revised compensation policy for “key employees” at the Bank who are not officers was approved by the Audit Committee and the Board of Directors during 2020 and entered into effect starting in 2021. The policy sets out a compensation framework for key employees, including inter alia, salaries, related benefits, retirement terms and conditions and annual bonuses. This policy was formed bearing in mind the principles of the Bank’s Officer Compensation Policy, with the required adjustments and according to the provisions of Proper Conduct of Banking Business Directive No. 301A.

G. Compensation Policy for All Employees

The revised compensation policy for all employees (who are not key employees) - was approved by the Audit Committee and the Board of Directors during 2020 - is based on the provisions of Proper Conduct of Banking Business Directive No. 301A.

The compensation policy for all such Bank employees is designed to serve as a tool to promote the achievement of the Bank's business targets, including facilitating the recruitment and retention of high-quality employees, motivating them to improve performance and achieve the Bank’s business objectives and targets while staying within the Bank’s risk appetite.

The compensation policy deals, inter alia, with salary and related benefits, bonuses, retirement terms and conditions and other compensation components payable to all employees.

Following are the main terms and conditions of the collective agreement signed in 2019:

1. Salary updates - Annual salary updates at a rate of 3.5 percent in each of the years 2019-2022.
2. A one-time salary bonus of 2 percent for participating in the efficiency plan, which was paid in two installments: 1 percent in 2019 and 1 percent in 2020. The salary updates detailed in Sections 1 and 2 above are differential, according to each employee’s performance.
3. The Bank paid a one-time signing bonus of NIS 6,000 to each employee.
4. An agreement was signed, according to which up to 450 employees specializing in technology, digital and data will be employed. The agreement does not include permanent employee status or additional components, and will provide the Bank with the flexibility needed to hire and manage its human capital in these areas.
5. The basic minimum monthly salary was revised to NIS 6,200 in two phases, in 2019 and 2021.

Note 23 - Employee Benefits (cont.)

6. An additional component will be included in the salaries of tenured employees eligible for contributory pension.

7. Various agreements regarding revision of additional payments, global overtime arrangements as well as increasing the number of employees hired under individual professional agreements.

8. Transitioning of headquarters units to the Bank’s Lod compound.

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits

1. Employee benefits

	As at December 31		
	2021	2020	2019
	In NIS millions		
Retirement benefits - pension and severance pay			
Liability amount	**21,261**	20,491	20,470
Fair value of plan assets	**9,803**	8,945	7,614
Excess liability over plan assets	**11,458**	11,546	12,856
Accrued jubilee vacation leave			
Liability amount	**30**	36	36
Fair value of plan assets	**-**	-	-
Excess liability over plan assets (included in "Other liabilities")	**30**	36	36
Other benefits			
Liability amount	**637**	639	635
Fair value of plan assets	**-**	-	-
Excess liability over plan assets	**637**	639	635
Total[1]			
Amount by which the liability for employee benefits exceeds the plan assets included in "Other liabilities"[1]	**12,150**	12,221	13,527
[1]Of which: for employee benefits abroad	**28**	84	61
Excess assets for employee benefits in respect of liabilities included in the Other assets line item[2]	**25**	-	-
[2]Of which: for benefits to employees abroad	**12**	-	-

2. Defined benefit plan

A. Obligation and Funding Status

1. Change in the Obligation for expected benefit

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Obligation for expected benefit as at the beginning of the year	**20,491**	20,470	15,867
Service cost	**189**	175	149
Interest cost	**572**	573	640
Contributions by planholders	**32**	33	39
Actuarial loss	**829**	555	4,526
Changes in foreign exchange rates	**(12)**	(19)	(22)
Paid benefits[(a)]	**(840)**	(1,296)	(698)
Other	**-**	-	(31)
Obligation for expected benefit as at the end of the year	**21,261**	20,491	20,470
Obligation for cumulative benefit as at the end of the year	**19,617**	18,817	18,902

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

A. Obligation and funding status (cont.)

2. Change in the fair value of plan assets and plan's funding status

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Fair value of plan assets as at the beginning of the year	**8,945**	7,614	6,235
Actual return on plan assets[(b)]	**1,150**	743	1,143
Plan contributions by the banking corporation	**201**	1,272	403
Contributions by planholders	**32**	33	39
Changes in foreign exchange rates	**(23)**	(31)	(24)
Paid benefits[(a)]	**(502)**	(732)	(182)
Other	**-**	46	-
Fair value of plan assets as at the end of the year	**9,803**	8,945	7,614
Funding status - Net liability recognized at the end of the year	**11,458**	11,546	12,856

(a) Including immaterial amounts in respect of downsizing, discharges, special and contractual benefits and severance pay.
(b) Including the effect of the transition to a paying fund in respect of the retirees. Please see Section D in this note.

3. Amounts recognized in the consolidated balance sheet

	As at December 31		
	2021	2020	2019
	In NIS millions		
Amounts recognized in the "Other assets" item	**25**	-	-
Amounts recognized in the "Other liabilities" item	**11,483**	11,546	12,856
Net liability recognized at the end of the year	**11,458**	11,546	12,856

4. Amounts recognized in accumulated other comprehensive income before the tax effect

	As at December 31		
	2021	2020	2019
	In NIS millions		
Net actuarial loss	**5,168**	5,564	5,908
Net liability for transition	**-**	-	-
Closing balance of accumulated other comprehensive income	**5,168**	5,564	5,908

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

B. Expenditures for the period

1. Components of the benefit cost included in profit and loss

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Service cost	**189**	175	149
Interest cost	**572**	573	640
Expected return on plan assets	**(414)**	(365)	(364)
Amortization of unrecognized amounts - net actuarial loss (profit)	**489**	470	401
Other	**-**	-	31
Total benefit cost, net	**836**	853	857
Total expense for defined contribution pension plan	**185**	181	170
Total expenses included in profit and loss	**1,021**	1,034	1,027

2. Changes in plan assets and obligation for benefit recognized in other comprehensive income before tax effect

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Net actuarial loss per year	**93**	177	3,678[(a)]
Amortization of unrealized amounts - net actuarial loss	**(489)**	(470)	(401)
Other incl. restructuring	**-**	(46)	(31)
Changes in foreign exchange rates	**-**	(5)	(6)
Total recognized in other comprehensive income	**(396)**	(344)	3,240
Total benefit cost, net	**836**	853	857
Total recognized in net benefit cost for the period and in other comprehensive income	**440**	509	4,097

(a) Including adjustments for previous years.

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

3. Assumptions[a]

A. The assumptions, based on the weighted average, used for calculating the benefit obligation and for measuring the benefit's net cost for the years ended December 31.

1. The main assumptions used to measure the benefit obligation

	December 31		
	2021	2020	2019
	In %		
Discount rate	**0.55**	1.00	1.22
Rate of increase in the CPI	**2.59**	1.63	1.42
Departure rate[b]	**0.1-7**	0.1-3.7	0.1-3.7
Rate of compensation increase	**0-6.3**	0-6.3	0-6.3

2. The main assumptions used for calculating the net benefit cost for the period

	For the year ended December 31		
	2021	2020	2019
	In %		
Discount rate	**0.92**	1.62	2.16
Expected return on long-term plan assets	**4.50**	4.59	5.50
Rate of compensation increase	**0-6.3**	0-6.3	0-6.3

B. The effect of a one percentage point change on the expected benefit obligation before the tax effect

	Increase by one percentage point			Decrease by one percentage point		
	As at December 31			As at December 31		
	2021	2020	2019	**2021**	2020	2019
	In NIS millions					
Discount rate	**(2,829)**	(2,846)	(2,760)	**3,507**	3,549	3,435
Rate of increase in the CPI	**(592)**	(681)	(635)	**665**	766	714
Departure rate	**256**	320	233	**(283)**	(309)	(202)
Rate of compensation increase	**650**	755	714	**(580)**	(672)	(635)

(a) The assumptions are only in respect of the Bank's data.

(b) For employees who started working at the Bank before January 1 1999 and were awarded permanent employee status as of the date of signing the special collective bargaining agreement in 2000.

The employee benefits liability amount is affected by several key variables, which include market variables (discount rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employee behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables. For example, in case of a sharp interest rate hike in the Israeli economy, government bond yields may rise (lowering the pension liability amounts), causing the number of employees opting for the pension fund track to decrease (a decision which will also decrease the Bank's pension liability amounts).

In this context, it should be noted that on November 6 2019, the Capital Market Insurance and Savings Commissioner published a circular regarding the updating of demographic assumptions in life insurance and updating of the improvement in life expectancy model. The circular had no material effect on the total liabilities for employees.

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

4. Plan assets

A. Composition of fair value of plan assets

	As at December 31 2021			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	284	11	-	295
Shares	1,595	37	104	1,736
Government bonds	382	119	-	501
Corporate bonds	885	79	-	964
Other[(a)]	14	95	6,198	6,307
Total	3,160	341	6,302	9,803

	As at December 31 2020			
	Level 1	Level 2	Level 3	Total
	In NIS millions			
Cash and deposits with banks	246	-	-	246
Shares	1,581	51	101	1,733
Government bonds	409	124	-	533
Corporate bonds	965	32	-	997
Other	15	106	5,315	5,436
Total	3,216	313	5,416	8,945

(a) Including deposits in a paying provident fund and insurance policies purchased for retired employees. Please see Section D in this note.

B. Fair value of plan assets by type of asset and allocation target for 2022

	Allocation target	Percentage of plan assets	
	As at December 31		
	2022	2021	2020
	In %		
Cash and deposits with banks	3	3	3
Shares	18	18	19
Government bonds	5	5	6
Corporate bonds	10	10	11
Other	64	64	61
Total	100	100	100

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

4. Plan assets (cont.)

C. Changes in the fair value of plan assets whose value is measured based on significant unobservable inputs (Level 3)

	For the year ended December 31 2021					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/ from Level 3	Closing balance
	In NIS millions					
Shares	101	-	2	1	-	104
Other	5,315	-	575	(24)	332	6,198
Total	5,416	-	577	(23)	332	6,302

	For the year ended December 31 2020					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/ from Level 3	Closing balance
	In NIS millions					
Shares	106	-	4	(9)	-	101
Other	2,779	(2)	534	989	1,015	5,315
Total	2,885	(2)	538	980	1,015	5,416

Note 23 - Employee Benefits (cont.)

H. Composition of Benefits (cont.)

5. Cash flows

A. Contributions

	Forecast[(a)]	Actual contributions		
		For the year ended December 31		
	2022	**2021**	2020	2019
	In NIS millions			
Contributions	**110**	**233**	1,305	442

(a) The estimated contributions the Bank expects to pay for the defined benefit plan during 2022.

B. Benefits the Bank expects to pay in the future[(a)]

Year	In NIS millions
2022	914
2023	777
2024	758
2025	801
2026	834
2027-2031	4,847
2032 and onwards	13,870
Total	22,801

(a) In discounted values.

Note 24 – Stock-based Compensation Transactions

A. Overview

According to the Compensation Policy approved on February 11 2014 by the Bank's general meeting, half of the variable bonus to senior Bank officers will be paid in the form of Performance Share Units (PSUs).

In addition, the Bank awarded Restricted Share Units (RSU) to two officers.
RSUs are units of restricted shares which, upon fulfillment of the applicable vesting terms and conditions, are automatically converted into ordinary shares of the Bank, which are held by the Bank as treasury shares, without paying any exercise price.

The RSUs are allotted according to the Capital Gain Track pursuant to Section 102(b)(2) of the Income Tax Ordinance, 1961.

B. Details Regarding Equity-Settled Stock-based Compensation Transactions

In 2021, there were units in circulation.

	Number of units as of December 31 2020									
	Senior managers		Members of management		President & CEO		Chairman of the Board		Retired managers	
	Restric-ted	Contin-gent	Restric-ted	Contin-gent	Restric-ted	Contin-gent	Restric-ted	Contin-gent	Restric-ted	Contin-gent
Outstanding at beginning of year	-	3,091	-	12,773	-	8,017	-	-	-	169,117
Awarded during the year	-	-	-	-	-	-	-	-	-	-
Vested during the year	-	(3,091)	-	(12,773)	-	(8,017)	-	-	-	(169,117)
Retired managers	-	-	-	-	-	-	-	-	-	-
Appointed managers	-	-	-	-	-	-	-	-	-	-
Outstanding as at year-end	-	-	-	-	-	-	-	-	-	-

Note 25A - Equity

A. Share Capital

	December 31 2021		December 31 2020	
	Authorized	Issued and paid up[(a)]	Authorized	Issued and paid up[(a)]
	NIS			
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,524,720,264**	3,215,000,000	1,524,720,264

(a) All the issued shares were registered shares which have been (or will be) issued have been (or will be) converted to ordinary shares transferrable in NIS 1.0 units. The rights attached to the Bank's shares are prescribed by the Bank's Articles of Association.

The ordinary shares are listed on the Tel Aviv Stock Exchange.

NIS 925,750,000 par value in subordinated bonds (Series 400) which were issued by the Bank on January 21 2016, and which were convertible under their terms and certain circumstances to ordinary shares of the Bank, were redeemed under early redemption on January 21 2021. For additional information, please see Section E in this note.

NIS 613,800,000 par value in Series 401 Subordinated Bonds and NIS 209,100,000 par value in Series 402 Subordinated Bonds were issued by the Bank on July 8 2018, convertible under certain circumstances to up to 61,682,742 and 21,013,133 ordinary shares of the Bank, respectively, as at December 31 2021.

NIS 664,150,000 par value in Series 403 Subordinated Bonds were issued by the Bank on January 31 2019, and an additional NIS 777,000,000 p.v. in Series 403 Subordinated Bonds were issued by the Bank on March 13 2019 by way of series expansion. These Subordinated Bonds are convertible, under special circumstances, to up to 134,212,762 ordinary shares of the Bank, as at December 31 2021.

NIS 1,240,950,000 par value in Series 404 Subordinated Bonds were issued by the Bank on July 15 2019. These Subordinated Bonds are convertible, under special circumstances, to up to 105,797,867 ordinary shares of the Bank, as at December 31 2021.

USD 750,000,000 par value in Series Leumi $ 2031 Subordinated Notes were issued by the Bank on January 29 2020, convertible under certain circumstances to up to 208,055,925 ordinary shares of the Bank as of the issue date.

As of the reporting date, the Bank owns 71,824,258 treasury shares.

B. Circular on Adjustments to Proper Conduct of Banking Business Directive, Dealing with the Coronavirus Crisis (Temporary Order) - Proper Conduct of Banking Business Directive No. 250

On March 31 2020 the Bank of Israel published a circular entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Directive No. 250) (hereinafter - the "Temporary Order"). In accordance with the temporary order, a banking corporation whose consolidated total assets equals or exceeds 24 percent of the banking system's total assets is required to maintain a Common Equity Tier 1 capital ratio to risk-weighted assets that shall not fall below 9 percent and a ratio of total capital to risk-weighted assets that shall not fall below 12.5 percent (in lieu of 10 percent and 13.5 percent, respectively, prior to the circular). The directive is applicable to Leumi.

On November 15 2020, as part of the temporary order, the Bank of Israel published a circular amending Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", such that a banking corporation whose consolidated total assets is 24 percent or more than the total assets of the banking system, shall comply with a leverage ratio of no less than 5.5 percent (in lieu of the 6 percent prior to the publication of the circular).

On the back of the ongoing development of the coronavirus event and its implications on the Israeli and global economies, the Banking Supervision Department decided to prolong, from time to time, the validity of the temporary order. On December 27, 2021, the Banking Supervision Department published a circular according to which, as of January 1 2022, the temporary order will expire, except for specific provisions with a later expiry date; on January 18 2022, the Banking Supervision Department published another circular, according to which the temporary order would not be revoked, but rather revised.

According to the circulars, the capital targets easement shall be in effect until December 31 2023, provided that the banking corporation's capital ratios shall be no less than the capital ratios on December 31 2021, or the minimum capital ratios applicable to the corporation prior to the temporary order, whichever the lower. As of December 31, 2021, the CET1 capital ratio of Leumi is 11.50 percent and the total capital ratio is 14.21 percent; therefore, as of January 1, 2022, Leumi is subject to the minimum capital targets in effect prior to the temporary order - i.e. the CET1 capital ratio shall not fall below 10 percent, and the total capital ratio shall not fall below 13.5 percent. It was also determined in the circular that for a period until June 30 2022, a reduction of up to 0.3 percent in the capital ratios shall not be deemed as deviating from the required capital ratios, subject to stringent and conservative capital planning and to reporting to the Banking Supervision Department.

As for the leverage ratio, the easement shall be in effect until December 31 2023, provided that the leverage ratio does not fall below the leverage ratio as of June 30 2022 or the minimum leverage ratio applicable to the banking corporation prior to the temporary order, whichever the lower. It was also determined that taking advantage of the easement shall not prevent the distribution of dividends, subject to an total capital planning aimed at reverting to the required leverage ratio.

The Temporary Order determined that for housing loans that will be extended in the crisis period, (starting on March 19 2020), the additional capital requirement of 1 percent of the outstanding loan will not be applied, as set out in Section 14A. To Proper Conduct of Banking Business Directive No. 329, "Restrictions on Granting Housing loans". The temporary order was extended through September 30 2021. In accordance with the circular published by the Banking Supervision Department on September 30 2021, from October 1 2021, the additional 1 percent capital requirement in relation to housing loans will be reapplied, although the easement remains as to housing loans not intended to purchase real estate (all-purpose loans). Accordingly, the additional capital requirement for housing loans, as at December 31 2021, is 0.19 percent in terms of CET1.

Accordingly, the minimum capital requirements applicable to the Bank as at December 31 2021 are 9.19 percent for Common Equity Tier 1 capital ratio (including capital requirement for outstanding housing loans) and 12.50 percent for total capital ratio. As of January 1 2022, the minimum capital requirements applicable to the Bank are 10 percent for Common Equity Tier 1 capital ratio (including the capital requirement for outstanding housing loans) and 13.50 percent for total capital ratio.

After the expiration of the capital target easements, the Bank's Board of Directors decided, on March 8 2022, to revise the internal CET1 capital, raising it to 10.5 percent as was prior to the coronavirus crisis.

C. Dividend Distribution Policy

On March 6 2019, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

As part of the implementation of this policy, and until the Board of Directors' decision of April 16 2020 to put an end to the dividend distribution and to the Bank's share buyback plan, against the backdrop of the coronavirus crisis, the Bank used to distribute a dividend of up to 40 percent of the quarterly net income and to regularly carry out a share buyback plan.

Note 25A - Equity (cont.)

According to the Banking Supervision Department's guidance regarding distribution of dividends during the coronavirus crisis, the Bank distributed, in September 2021, NIS 630 million, representing 30 percent of the net income for 2020; in December 2021, the Bank distributed NIS 1,367 in dividends, representing 30 percent of the net income for the first nine months of 2021.

In the Banking Supervision Department circular dated December 27 2021, limitations on distribution of dividends were revoked and banking corporations were instructed to exercise due caution when examining their business model, as well as take into account the remaining uncertainty in the markets, due, among other things, to new virus mutations.

Accordingly, on March 8 2022, the Board of Directors approved a distribution of dividends in the amount of NIS 588 million, which constitutes 40 percent of the net income for the fourth quarter of 2021, as it did for every quarter prior to the coronavirus crisis. The dividend approved per share of NIS 1 par value amounted to 40.481 agorot. The Board of Directors designated March 29 2022 as the record date for purposes of dividend payment and April 6 2022 as the payment date.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Paid cash dividend
		In agorot	In NIS millions
February 26 2020	March 23 2020	20.29	297
August 12 2021	September 2 2021	43.36	630
November 15 2021	December 12 2021	94.11	1,367

D. Shelf Prospectus and Bond Issue

On May 27 2021, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority. The shelf prospectus shall be in effect for two years from its publication date.

On November 25 2021, the Bank issued a total of NIS 1.4 billion p.v. in bonds Series 182. The bonds are redeemable in one lump sum on November 25 2027 and bear a linked annual interest rate of 0.1 percent, are linked to the Consumer Price Index, and are payable annually on November 25 of each year from 2022 to 2027, inclusive.

On November 25 2021, the Bank issued a total of NIS 0.73 billion p.v. in Bonds (Series 183); the bonds are redeemable in one lump sum on November 25 2029, bear a linked annual interest rate of 0.1 percent, are linked to the Consumer Price Index, and are payable annually on November 25 of each year from 2022 to 2029, inclusive.

On January 13 2022, the Bank issued a total of NIS 1.2 billion p.v. in bonds by way of extending Series 179, and a total of NIS 1.8 billion p.v. in bonds by extending Series 182.

The Series 179, Series 182 and Series 183 bonds are not recognized for regulatory capital purposes.

E. Early Redemption of Subordinated Capital Notes

On December 30 2020, the Bank's Board of Directors decided to redeem, by way of full early redemption, Subordinated Bonds Series 400, which were issued to the public in January 2016. Accordingly, on January 21 2021, NIS 0.9 billion in Subordinated Bonds was redeemed. Following the full early redemption decision, published on December 30 2020, Subordinated Bonds Series 400 were not recognized in the Bank's regulatory capital as at December 31 2020.

On December 30 2020, the Bank's Board of Directors decided on full early redemption of Capital Notes Series 200 and 201, which were issued to the public in February 2010. Accordingly, on February 4 2021, NIS 2.3 billion in Capital Notes Series 200 and 201 was redeemed. The capital notes were included in the Bank's regulatory capital as at December 31 2020, in accordance with the transitional provisions of Proper Conduct of Banking Business Directive No. 299.

Note 25B - Capital Adequacy, Leverage and Liquidity

Overview

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directives Nos. 201-211 on capital measurement and adequacy, in order to adapt them to the Basel III rules.

It should be noted that Basel III rules introduce significant changes in the calculation of regulatory capital requirements, inter alia, in relation to the following:

- Regulatory capital components.
- Capital deductions and regulatory capital adjustments.
- Treatment of exposures to financial corporations.
- Treatment of exposures to credit risk for impaired debts.
- Capital allocation for CVA risk.

The abovementioned amendments became effective on January 1 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299, "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

According to the transitional provisions, the regulatory adjustments and deductions from capital, as well as minority interests - which do not qualify as regulatory capital - were gradually deducted from the capital at a rate of 20 percent per year, from January 1 2014 to January 1 2018. Capital instruments that no longer qualify as regulatory capital were recognized up to a maximum of 80 percent on January 1 2014 and in each subsequent year, the maximum is lowered by an additional 10 percent, until January 1 2022. As of 2021, the maximum instrument amount qualifying as regulatory capital is 10 percent.

Volatile Capital Components

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the liability being measured in accordance with market interest rates, which are at historical lows, and also due to the considerable volatility such measurement has brought to the Bank's regulatory capital.

In this context, on July 12 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount rate is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel approved the extension of the validation of the approval for the financial statements as at December 31 2024 (inclusive).

The new method significantly moderates the volatility resulting from changes in the discounted interest rate.

On November 15 2016, the Bank's Board of Directors decided, based on the recommendation of the Audit Committee, to calculate the liabilities for employee pensions according to a fixed spread of AA-rated bonds.

For regulatory capital purposes, the pension liability amounts to NIS 19,664 million and the Common Equity Tier 1 capital - to NIS 43,117 million, compared with a book value of NIS 21,737 million for the pension liability and Common Equity Tier 1 capital of NIS 40,023 million.

Following is an analysis of the effects of the changes on Common Equity Tier 1 capital as at December 31 2021:

- Change in the volume of risk-weighted assets – risk-weighted assets amounted to NIS 374.8 billion as at December 31 2021. Every NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio by 0.03 percent and total capital ratio by 0.04 percent.
- Change in Common Equity Tier 1 capital - Common Equity Tier 1 capital was NIS 43.1 billion as of December 31 2021. A decrease of NIS 100 million in the Common Equity Tier 1 capital will reduce the CET1 capital ratio by approx. 0.02 percent.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2021	2020
	In NIS millions	
a. Data		
Capital for capital ratio calculation purposes		
CET1 capital, after regulatory capital adjustments and deductions[(b)]	43,117	39,262
Tier 2 capital, after deductions	10,148	12,297
Total capital	53,265	51,559
Balance of risk-weighted assets		
Credit risk[(b)]	346,602	303,356
Market risks	5,592	5,313
Operational risk	22,582	22,182
Total balance of risk-weighted assets	374,776	330,851
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted assets	11.50%	11.87%
Ratio of total capital to risk-weighted assets	14.21%	15.58%
Minimum CET 1 capital ratio set by the Banking Supervision Department[(a)]	9.19%	9.23%
Minimum total capital ratio set by the Banking Supervision Department[(a)]	12.50%	12.50%
b. Major subsidiaries		
Bank Leumi USA (BLUSA)		
Ratio of CET1 capital to risk-weighted assets	13.40%	13.82%
Ratio of total capital to risk-weighted assets	14.43%	15.07%
Minimum CET1 capital ratio set by the local authorities[(c)]	7.00%	7.00%
Minimum total capital ratio set by the local authorities[(c)]	10.50%	10.50%

(a) The minimum Tier 1 capital ratio required and the minimum total capital ratio required from March 31 2020 are 10 percent and 13.5 percent, respectively. On March 31 2020, the Banking Supervision Department published a temporary order following the coronavirus crisis, according to which the minimum Common Equity Tier 1 capital and minimum total capital ratio are 9 percent and 12.5 percent respectively. In addition to the Common Equity Tier 1 capital is a capital requirement of 1 percent of the outstanding housing loans, excluding housing loans granted during the temporary order term. Data regarding minimum total capital ratio required by the Banking Supervision Department for previous periods have been restated due to clarifications by the Banking Supervision Department that the additional capital requirement for housing loans will be added to the Common Equity Tier 1 capital. For more information about the temporary order for addressing the coronavirus crisis, please see Note 25A above. As of January 1 2022, the minimum capital requirements applicable to the Bank are 10 percent for Common Equity Tier 1 capital ratio (with the additional capital requirement for outstanding housing loans) and 13.5 percent for total capital ratio.

(b) These data include adjustments for the efficiency plans prescribed in the Banking Supervision Department's letter entitled Operational Efficiency of the Banking System in Israel; these adjustments are deducted gradually until June 30 2022 and September 30 2024. On December 31 2021, a total of NIS 78 million was deducted from the balance of risk-weighted assets in respect of the adjustments to the efficiency plans (NIS 1 million was added as at December 31 2020). For more information regarding the adjustments for the efficiency plans, please see Section D.

(c) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required under local regulation are 4.5 percent and 8 percent, respectively. These ratios are compounded by a capital conservation buffer of 2.5 percent as at December 31 2021.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

C. Capital Components for the Calculation of Capital Ratios

	December 31	
	2021	2020
	In NIS millions	
1. CET1 capital		
Shareholders' equity	**41,610**	37,664
Differences between shareholders' equity and Common Equity Tier 1 capital - Non-controlling interests	**300**	295
Differences between shareholders' equity and Common Equity Tier 1 capital - for employee benefits	**-**	-
Adjustments in respect of the transition between the accounting curve and the 8-quarter average yield curve[(a)]	**1,304**	1,368
Total CET1 capital before regulatory adjustments and deductions	**43,214**	39,327
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(178)**	(150)
Deferred tax receivable	**-**	(188)
Regulatory adjustments and other deductions - CET1 capital	**(23)**	(13)
Total regulatory adjustments and deductions - CET1 capital	**(201)**	(351)
Total adjustments for the efficiency plan	**104**	286
Total CET1 capital, after regulatory adjustments and deductions	**43,117**	39,262
2. Tier 2 capital		
Tier 2 capital: Instruments before deductions	**6,153**	8,505
Tier 2 capital: Provisions before deductions	**3,995**	3,792
Total Tier 2 capital before deductions	**10,148**	12,297
Deductions:		
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**10,148**	12,297
Total capital	**53,265**	51,559

(a) Pursuant to specific approval by the Banking Supervision Department.

Comment: The total capital ratio is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, and 299 regarding capital measurement and capital adequacy, which became effective on January 1 2014.

D. Effect of the Adjustments for the Efficiency Plan on the CET1 Capital Ratio

	December 31	
	2021	2020
	In %	
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted components before the effect of the transitional provisions and adjustments for the efficiency plan[(a)]	**11.47%**	11.78%
Effect of adjustments for the efficiency plan[(b)]	**0.03%**	0.09%
Ratio of CET1 capital to risk-weighted assets	**11.50%**	11.87%

(a) Including the effect of adopting US GAAP on employee benefits.

(b) Adjustments for the efficiency plans in accordance with the provision of the Banking Supervision Department are charged over a 5-year period, on a straight-line basis, in respect of capital adequacy calculations.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

E. Leverage ratio pursuant to the Banking Supervision Department's directives

On April 28 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio". The directive sets a simple, transparent and non-risk based leverage ratio to serve as a supplementary and reliable measure for risk-based capital requirements, with the purpose of limiting excess leverage in banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio between capital measurement and exposure measurement. As defined in Proper Conduct of Banking Business Directive No. 202, Tier 1 capital is used for calculating the leverage ratio, taking into account the transitional provisions. A Bank's total exposure is the sum of its on-balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and to off-balance-sheet items. As a rule, the measurement is consistent with the accounting values, and no risk-weighting is applied. In addition, unless specifically permitted to do so under the Directive, the Bank may not use physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measurement. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive No. 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives according to Appendix C of Proper Conduct of Banking Business Directive No. 203, and the exposures for off-balance-sheet items - by converting the items' notional amount by credit conversion coefficients, as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations shall have a consolidated leverage ratio of no less than 5 percent. A banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking system's total assets shall have a consolidated leverage ratio of no less than 6 percent. Thus, the Bank is required to have a minimum leverage ratio of 6 percent.

On November 15 2020, the Bank of Israel published a circular outlining further amendments to Proper Conduct of Banking Business Directives for Handling the Coronavirus (Temporary Order) (Directive No. 250). According to the circular, an adjustment was made to Proper Conduct of Banking Business Directive No. 218, "Leverage ratio". For more information about the temporary order for addressing the coronavirus crisis, please see Note 25A above.

	December 31	
	2021	2020
	In NIS millions	
a. Consolidated data[(a)]		
Tier 1 capital	**43,117**	39,262
Total exposures	**711,125**	597,538
Leverage ratio		
Leverage ratio	**6.06%**	6.57%
Minimum leverage ratio set by the Banking Supervision Department	**5.50%**	5.50%
b. Major subsidiaries		
Bank Leumi USA (BLUSA)		
Leverage ratio	**11.66%**	11.41%
Minimum leverage ratio set by the local authorities	**5.00%**	5.00%

(a) The data include adjustments in respect of the efficiency plan in accordance with the directives of the Banking Supervision Department. The effect of the relief granted in respect of the efficiency plans on the leverage ratio, estimated at 0.01 percent as at December 31 2021 is charged over a 5-year period on a straight line basis as of their effective date. (0.05 percent as at December 31 2020); for more information regarding the effect of the transitional provisions and Adjustments for the Efficiency Plan, please see Section D above.
In addition, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above, were taken into account.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

F. Liquidity Coverage Ratio Pursuant to the Directives Issued by the Banking Supervision Department

On September 28 2014, a circular was published adding Proper Conduct of Banking Business Directive No. 221, “Liquidity Coverage Ratio”, which applies the recommendations of the Basel Committee regarding liquidity coverage ratio to the banking system in Israel. The liquidity coverage ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that is able to cover the corporation’s liquidity requirements in this time horizon. The Directive prescribes the manner of calculating the liquidity coverage ratio, including the characteristics and operational requirements for an "inventory of high-quality liquid assets" (the numerator) and sufficient buffers for them; it also prescribes the net cash outflow expected under the stress scenario defined in the Directive for 30 calendar days (the denominator).

The stress scenario set forth in the directive includes a shock scenario combining a corporation-specific shock and a systemic shock; in this context, standard withdrawal and deposit rates were defined for outflows and inflows, respectively, according to the various balance categories.

The liquidity coverage ratio became effective on April 1 2015.

As from January 1 2017, the required minimum liquidity coverage ratio is 100 percent. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

	December 31	
	2021	2020
	In %	
a. Consolidated data		
Liquidity coverage ratio	**124**	137
Minimum liquidity coverage ratio required by the Banking Supervision Department[(a)]	**100**	100
B. Banking corporation data		
Liquidity coverage ratio	**122**	136
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

(a) Currently, the Bank is reassessing its liquidity ratio calculation methodology; it believes that if a new methodology is applied, it will leave the Bank with a significantly higher liquidity ratio than the regulatory requirements. Thus, and in coordination with the Banking Supervision Department, the Bank has set an internal liquidity coverage ratio of 115 percent, in excess of the minimum liquidity coverage ratio set by the Banking Supervision Department.

Comment: Bank Leumi USA is not subject to the liquidity coverage ratio.

G. Stable funding ratio pursuant to the Banking Supervision Department’s directives

As of the financial statements dated December 31 2021, the Bank is reporting the Net Stable Funding Ratio (NSFR) Directive No. 222, which is based on a publication of the Basel Committee. The NSFR is aimed at improving the resilience of banking corporations’ liquidity risk profile in the long term, by requiring them to maintain a stable financing profile according to the composition of their assets and their off-balance-sheet activities. The ratio prevents banking corporations from over-reliance on short-term wholesale financing. The measurement is made both on the consolidated and standalone levels each quarter; the requirement is to meet a 100 percent ratio.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	December 31
	2021
	In %
a. Consolidated data	
Stable funding ratio, net	131
Minimum stable funding ratio set by the Banking Supervision Department	100

The Bank meets the regulatory requirement as at December 31 2021 and even met it in measurements made prior to the reporting requirement. The Bank has established NSFR limitations in addition to managing the limitations relating to the liquidity risk management.

For additional information regarding the financial risk, please see under "Liquidity and Financial Risk" in the Report of the Board of Directors and Management.

Note 26 - Contingent Liabilities and Special Commitments

A. Off-Balance Sheet Commitment for Activity by Extent of Collection[(a)]

Outstanding loans extended out of deposits by extent of collection[(b)]

	As at December 31	
	2021	2020
	In NIS millions	
Unlinked NIS	**145**	254
CPI-linked NIS	**1,037**	1,101
Total	**1,182**	1,355

Cash flows arising from collection fees and interest margins in respect of loans extended out of deposits by extent of collection as at December 31

	Up to one year	Over one year and up to three years	Over three years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total for 2021	Total for 2020
	In NIS millions							
In the CPI-linked segment[(c)]								
Future cash flows	**4**	**6**	**4**	**4**	**3**	**1**	**22**	28
Projected future cash flows after management's estimate of early repayments	**4**	**6**	**4**	**4**	**3**	**-**	**21**	28
Discounted projected cash flows after management's estimate of early repayments[(d)]	**4**	**6**	**3**	**4**	**2**	**-**	**19**	26
Unlinked NIS segment								
Future cash flows	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1
Projected future cash flows after management's estimate of early repayments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1
Discounted projected cash flows after management's estimate of early repayments[(d)]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1

(a) Loans and deposits out of loans the repayment of which is conditional upon the extent of collection of the loans (or the deposits) plus interest margins or collection fees and commissions (instead of interest margins).

(b) Non-recourse loans and government deposits extended at the total amount of NIS 209 million (2020 – NIS 159 million) were not included in this table.

(c) Including foreign currency segment.

(d) Capitalization was carried out at a rate of 1.78 percent (2020 – at a rate of 2.26 percent).

Information regarding loans extended over the year by mortgage banks

	2021	2020
	In NIS millions	
Loans out of deposits according to the extent of collection	**101**	105
Non-recourse loans	**49**	45

Note 26 - Contingent Liabilities and Special Commitments (cont.)

B. Contingent liabilities and other special commitments[a]

	As at December 31	
	2021	2020
Commitments to purchase securities	**686**	669
Commitments to invest in, and purchase of, buildings and equipment	**23**	24

(a) As at January 1 2020 following the application of Topic 842, "Leases", no information regarding rental contracts was provided under Other liabilities. For information regarding leases for 2020, please see Note 16H.

C. Legal Claims

During the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including class actions certification motions.

In the opinion of the management of the Bank and the managements of the consolidated companies, the amount of additional exposure arising from legal claims filed against the Bank and the consolidated companies on various issues, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, is approx. NIS 343 million.

1. Set forth below are details of legal claims filed against the Bank, whose amounts are material. In the opinion of the management of the Bank, which is based on legal opinions regarding the expected results of such claims, the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

1.1 Legal claims filed during and after the reporting period

a. On March 2 2021, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against two additional banks. According to the lawsuit, the banks are not entitled to charge large corporate customers a transaction recording fee ("line fee") in addition to the specific fees charged for various services. The plaintiff notes that the damage caused to the plaintiff is NIS 101.65 and does not state the damage assessment for the class.

b. On April 11 2021, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against other banks and additional financial institutions. The plaintiffs claim that the defendants are compromising their clients' privacy and violating the duty of secrecy they are bound by, by transferring private information about the clients to third parties, in particular to Google. The claimants assess the personal damages caused to them in the amount of NIS 2,000 and do not state a damage assessment for the class.

c. On June 7 2021, a motion for class certification was filed in the Tel Aviv District Court against the Bank. The lawsuit addresses the plaintiff's claim whereby he incurred damage due to failure to update his bank account balance during the two days which elapsed from the date on which he purchased foreign securities and the date on which his account was charged for the purchase. The plaintiff estimates his personal damage at NIS 35 thousand and does not provide a damage assessment for the class.

d. On September 6 2021, a class certification motion was filed with the District Court (Central Region) against five banks, including the Bank, stating that the plaintiffs suffered damage due to the fact that the banks present fees and commissions for certain transactions in foreign currency rather than in shekels, and charge these fees and commissions in shekels with a higher exchange rate than the representative exchange rates. The plaintiffs do not state a damage assessment for the class.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

1.2 Pending legal claims filed in previous reporting periods

a. On December 2 2013, a motion for class certification was filed against the Bank regarding early repayment fees for non-housing loans. According to the applicants, the early repayment fee, both in respect of loans subject to calculation principles set in the Proper Conduct of Banking Business Directives and in respect of loans subject to rules set by the Bank, are calculated by the Bank in an unlawful manner. According to the applicants, at this stage it is impossible to estimate the overall claim amount. On November 3 2019, a decision was handed down by the Tel Aviv District Court, which partially approved the application for class action certification regarding the manner of calculating the early repayment fee for unsupervised loans, and on December 22 2019, the claimants appealed the ruling to the Supreme Court. On July 21 2021, a judgment rejecting the appeal was handed down, and the claim continues to be heard in the District Court regarding the portion approved as class action lawsuit.

b. A motion to approve a class certification was filed against the Bank on April 29 2015. The claim amount is NIS 150 million. According to the applicant, funds of Holocaust survivors which were deposited with the Anglo Palestine Bank before World War II and which were not withdrawn by them during the war are repaid to the customers or their next of kin without being purportedly revalued to real terms. On February 11 2021, the District Court issued a ruling dismissing the motion for class action certification. On April 12 2021, the plaintiff appealed the ruling with the Supreme Court.

c. On July 22 2015, the Bank received a motion to approve a class certification that was filed against the Bank. According to the applicant, the Bank's reporting to the Execution Office regarding amounts paid directly to the Bank on account of debt in respect of which a collection procedure is being conducted by the Execution Office, is delayed by the bank and, as a result, a difference allegedly arises between the actual amount of debt and the debt amount recorded in the Execution Office file. The applicant estimates the amount of the class action at millions of shekels.

d. On February 11 2016, a motion for class certification was filed against the Bank and four other banks, claiming that the banks grant benefits to students, however they restrict the students' age. The applicant estimates the amount of the class action at NIS 219 million. On September 26 2019, the District Court dismissed the motion for class certification. On November 4 2019, the applicant appealed the decision of the District Court to the Supreme Court.

e. On March 7 2016, a legal claim was filed with a US court by a large number of plaintiffs, against dozens of defendants, including the Bank, Bank Leumi USA, and Bank Hapoalim. The plaintiffs claimed that by making, among other things, funds transfers, the defendants support settlements in the West Bank in a manner that harms Palestinian residents, violating their property and rights. The original amount claimed from all the defendants was USD 34.5 billion. This amount was later reduced to USD 1 billion. On August 29 2017, the US court granted a motion to dismiss the legal claim in limine. On September 8 2017, the plaintiffs appealed the ruling and on February 19 2019, the court accepted the plaintiffs' appeal and overturned the in limine decision. On June 8 2020, the court granted the plaintiffs' request to dismiss the lawsuit against the Bank and some of the defendants. Therefore, the Bank is not a defendant in the case. The legal procedure will continue against the other respondents, including Bank Leumi USA (BLUSA).

Note 26 - Contingent Liabilities and Special Commitments (cont.)

f. On March 29 2017, a motion for class certification was filed against the Bank and similar legal claims were filed against other banks. Alternately, the applicant, the Bank may not charge a “correspondent bank fee” when transferring foreign currency from a customer’s account to another bank account aboard. The applicant claims that the Bank may only charge a correspondent bank fee at the amount of the expense it actually incurred (the amount that it actually paid to the correspondent bank). The applicant claims that, the personal damage he has incurred is USD 30, and the damage incurred by the class of plaintiffs cannot be estimated.

g. On May 6 2018, a motion for class certification was filed against the Bank. The applicant claims that the Bank does not fulfil its obligation to make a reasonable effort to locate inactive accounts with a balance exceeding the investment requirement under the Banking Ordinance (Inactive Deposits), 2000, and that it is insufficient that the Bank revalues the accounts according to the provisions of the Ordinance and that the Bank should revalue the accounts at higher amounts. According to the applicant, the total class damage assessment is unquantifiable.

h. On September 16 2018, a motion for class certification was filed against the Bank. The applicant claims that when the Bank reimburses its customers for unlawful charges (for example, by mistake), it refunds them at face value - the same amount it has charged them - without taking into account the Bank's gains as a result of holding the funds or paying interest and linkage differentials. The applicant claims he has incurred a damage of NIS 0.51, and is unable to state the damage assessment for the class.

i. On January 21 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against other banks. The motion claims that the Bank allegedly charges all of its customers (whether private individuals, small businesses or corporations) for transactions to purchase products and/or services overseas, whether for private use or in order to transfer them overseas or import them into Israel, according to Chapter 7 of the Foreign Trade price list, rather than charge lower fees and commissions in accordance with Chapter 5 of the Foreign Currency price list. The plaintiffs value the damage incurred by all members of the group they purport to represent at tens of millions of shekels.

j. On May 10 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against two other banks. According to the plaintiffs, the banks are compromising their customers’ privacy and are violating their duty of secrecy by transferring identifying information to companies such as Facebook and Google. It was also claimed that the banks use third party tools in order to surveil their customers while they perform activities on the banking websites and applications for the purpose of conducting advertising campaigns. The claimants assess the personal damages caused to them in the amount of NIS 1,000 and do not state a damage assessment for the class.

k. On November 16 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank, claiming that the Bank is violating the provision of the law when charging its customers third party expenses in amounts that are not listed in Part 11 of the price list. According to the motion, the violation is for each of the 22 components/topics listed in Part 11 of the price list, and for which customers are charged third-party expenses. The specific claim relating to the applicant is for charging a delivery fee using a courier when ordering check books (despite giving it full fair disclosure). The plaintiffs note that the damage caused to the plaintiff is NIS 125.74 and do not state the damage assessment for the class.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

l. On November 24 2020, a motion for class certification was filed with the Jerusalem District Court against the Bank and against six other banks. According to the lawsuit, the banks have violated the Credit Information Service Law, 2016 and the regulations thereunder, claiming that the banks reported to the Central Credit Register legal proceedings against customers, contrary to the provisions of the law and in a manner that damaged the customers' ability to obtain credit and compromised their privacy and reputation. The plaintiffs do not state a assessment for the class and claim a monetary damage that varies among class members, as well as non-monetary damage.

1.3 Legal claims resolved during and after the reporting period (until the publication date, if any)

a. On June 5 2019, a motion for class certification was filed against the Bank and other banks. According to the plaintiff, the exchange rate differentials constitute a "commission", requiring the banks to provide fair disclosure thereof; as a result, charging the commission was illegal and the commission is too high. The claimed damage for the entire class the plaintiff purports to represent is NIS 8 billion (the plaintiff claims additional damages, which have not been quantified), of which NIS 2.2 billion is attributed to the Bank. On June 21 2020, the Tel Aviv District Court rejected in limine the motion for class certification and required the petitioners to pay the plaintiffs' legal expenses. On July 6 2020, the applicant appealed the ruling with the Supreme Court. On August 25, the Supreme Court handed down its ruling, dismissing the plaintiff's appeal. On September 1 2021, a motion of an additional hearing was submitted by the plaintiff. On October 25 2021, the Supreme Court decided strike out the claim, and the legal proceeding was thus concluded.

b. On February 11 2015, a motion for class certification was filed against the Bank. The amount claimed was NIS 2.3 billion (later reduced to NIS 1.5 billion). According to the applicant, the Bank allegedly has a "black list" of customers, which it flags in its systems for an unlimited period of time, in a manner which harms them or makes it difficult for them to obtain credit or carry out other business transactions with the Bank. On April 1 2020 the District Court issued a ruling which dismissed the motion for class certification and required the applicant to pay the Bank's legal expenses. On June 24 2020, the applicant appealed the ruling with the Supreme Court. On January 3 2022, a judgment was rendered rejecting the appeal, and the legal proceeding was thus concluded.

1.4 As at the publication date of the Financial Statements, there are no pending material legal claims against the Bank's subsidiaries, excluding that which is outlined in Section 2.1.e.

2. Pending against the Bank are motions for class certification for a material amount, which – according to the Bank's management, which is based on legal opinions as to the odds of these motions being approved – it is impossible to estimate the odds at this stage. For this reason, no provisions were made in respect of these motions.

On September 6 2021, a class certification motion was filed with the Haifa District Court against five banks, including the Bank, stating that the plaintiffs suffered damage following tax overcharges relating to proceeds from securities (such as dividends, interest, etc.), in cases there is a difference between the customer's country of residence and the security issuer's taxing country. According to the plaintiffs, the tax rates should be charged in accordance with the treaties for preventing double taxation between the relevant countries which, they claim, is not carried out effect. The plaintiffs do not state a damage assessment for the class.

D. Contingent Liabilities and Miscellaneous Commitments

On June 13 2021, the Bank received a notice from the Banking Supervision Department regarding the imposition of a NIS 975,000 monetary sanction due to cases where a fee was charged for a an attorney's letter, contrary to the Banking Ordinance (Service to Customers) (Supervision of Messaging or Alert Service), 2015. The monetary

Note 26 - Contingent Liabilities and Special Commitments (cont.)

sanction amount was reduced by 35 percent from the maximum monetary sanction by the Banking Supervision Department, who is authorized to do so under the circumstances of the case, due to the reduction causes provided by law. The Bank paid the amount of the monetary sanction in full.

E. The Bank serves as guarantor for members of some of the provident funds previously administered by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Prisma Provident Funds Ltd. (“Prisma”). The guarantee secures the repayment of the original principal amounts that were deposited as at December 31 2021, for a total of NIS 1,091 million in nominal values. As of December 31 2021, the value of the above funds’ assets amounted to NIS 3,059 million. In addition, this guarantee does not apply to deposits in accounts opened in the aforementioned funds after January 22 2007.

Against the aforesaid undertaking, Prisma undertook to pay the Bank a participation amount of no more than NIS 35 million per calendar year, linked to the CPI as from October 30 2006 until the payment date in the event that the guarantees or any portion thereof, is realized. A deductible amount not utilized in a certain year cannot be carried forward to future years.

In January 2009, the relevant funds were sold to Psagot Provident Funds Ltd. (hereinafter - - “Psagot”), which took over Prisma’s said commitments; on October 2021, the management of the said provident funds was transferred from Psagot to Harel Pension and Provident Ltd. and to Altshuler Shaham Pension and Provident Ltd., which undertook, each for the new funds under their management, the said commitments.

F. Indemnification Letters

1. The Bank has undertaken in advance to indemnify its directors, other officers and those whom it employs under personal managerial contracts and who are not Bank officers (hereinafter - “Managerial Contract Holders”) in respect of monetary liabilities arising from actions taken in their capacity as directors, officers and managers in the Bank and its investees; the indemnification undertaking covers a number of indemnity events that, in the opinion of the Bank’s Audit Committee and Board of Directors, can be expected in view of the Bank’s activities; those events include, among other things, the Bank’s ordinary banking activities, share offerings under a prospectus, reports to the public and to regulatory authorities, activities relating to Antitrust Law, cyber incidents and any other activity associated with the Bank’s activities. The cumulative maximum amount payable by the Bank per one indemnity event in respect of which the indemnification undertakings it has given and will give to all officers of the Bank and the subsidiaries will be exercised will not exceed 25 percent (twenty-five percent) of the Bank’s common equity as per its latest (annual or quarterly) financial statements published before actual indemnification date (hereinafter - the “Maximum Indemnity Amount”). The Maximum Indemnity amount is payable in addition to amounts received from the insurance company, if any, pursuant to an insurance policy taken out by the Bank, if any, and/or under an insurance policy and/or indemnification by any party other than the Bank (such that the Maximum Indemnity Amount will not be reduced due to such insurance and/or indemnification payments, if any). The Bank also undertook in advance, among other things, to indemnify directors, other Bank officers and managerial contract holders in respect of reasonable litigation costs, including costs incurred as a result of an investigation or procedure that was concluded without an indictment being filed and without the imposition of a monetary sanction in lieu of criminal proceeding, or an investigation or procedure that was concluded without an indictment being filed but with the imposition of a monetary liability in lieu of criminal proceedings relating to a criminal offence which does not require proof of criminal intent or in connection with a monetary sanction. The letter of indemnity also includes a further indemnification undertaking in respect of expenses and/or payment to the injured party of a breach in accordance with and subject to the provisions of the Streamlining of Enforcement Proceedings in the Israel Securities Authority Law (Legislative Amendments), 2011 ("the Administrative Enforcement Law"), and in respect of expenses incurred in connection with proceedings under Section G-1 of the Antitrust Law, 1988.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

On December 23 2019, an extraordinary meeting of shareholders of the Bank decided to approve an amendment to the List of Events for the Indemnification Undertakings (hereinafter - the "**Indemnification Undertakings**") for directors serving in the Bank, including those who will serve in the Bank from time to time. The List of Events was updated according to events which the Bank deems expected in light of its actual activity at the time of granting the Indemnification Undertaking. In addition, in this meeting, it was decided to approve the terms and conditions of service and employment of the President and CEO and of the Chairman of the Board, including granting indemnification undertakings.

The amendment of said Indemnification Undertakings also applies to other officers in the Bank as well as to managers with personal contracts who are not officers of the Bank, in line with the decision of the Audit Committee dated September 24 2019 and the Bank's Board of Directors dated October 29 2019.

The amended List of Events to the Indemnification Undertaking for directors and officers in the Bank is in line with the Bank's Articles of Association and the Bank's updated Compensation Policy.

Furthermore, on February 15 2004, the Bank's general meeting passed a resolution whereby directors will be exempted in advance for a liability in respect of damages caused due to breach of their duty of care towards the Bank. The decision to grant such an exemption also applies to other Bank officers, in accordance with the decision of the Audit Committee and the Board of Directors of June 2003.

2. The Bank has undertaken to indemnify Bank's employees in respect of expenses and/or any payment to the injured party of a breach in accordance with and subject to the provisions of the Administrate Enforcement Law, in accordance with terms and conditions normally set out in indemnity letters issued by the Bank.

3. The Bank has undertaken to indemnify certain external advisors including in connection with plans for awarding or offering securities to Bank or subsidiaries' officers or employees, as applicable, in respect of a liability or loss, and in various cases including in respect of other legal expenses in connection with services they rendered to the Bank.

4. The Bank and its subsidiaries have undertaken to indemnify international credit company Visa in respect of fulfillment of the obligations of Max It Finance Ltd. and its subsidiaries in connection with Visa credit cards.

5. The Bank and its subsidiaries provide, from time to time, in the ordinary course of business and under generally accepted circumstances, indemnification undertakings, which are limited or unlimited as to their amount or period, including: (1) debts with regard to the Bank's obligations as a member of the Tel Aviv Stock Exchange; (2) transactions for disposal of the Group's holdings in subsidiaries; and (3) issuance and clearing agreements with the credit card companies.

6. The Bank provides, from time to time, indemnity letters, which are limited or unlimited as to their amount and period, to secure indemnities provided by subsidiaries to officers due to risks applicable to companies' officers, and to ensure that subsidiaries comply with regulatory directives and commitments towards such officers. In addition, the Bank provided indemnity letters to Bank employees and officers of subsidiaries in respect of a list of events which are specified therein.

7. As part of the sale agreement of Leumi Romania in April 2019, indemnification was granted for various issues, some limited to EUR 15 million for a period of up to five years from the sale date, and others unlimited in amount. The Bank believes that the unlimited indemnification relates to issues which the exposure - if they materialize - is immaterial. Indemnification was also granted to directors who served in Leumi Romania until the sale date, in accordance with the indemnification undertakings accepted in the Bank for directors and officers, as well as indemnification for employees in Leumi Romania in relation to the sale procedure.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

8. As part of an international offering of subordinated bonds with a mechanism for principal loss absorption through conversion into ordinary shares of the Bank, in accordance with the provisions of Proper Conduct of Banking Business Directive 202, which were offered to qualified institutional investors as defined in and in reliance on Rule 144A under the United States Securities Act of 1933 (hereinafter - the "US Securities Act") and outside the United States in accordance with Regulation S under the US Securities Act, which took place in January 2020 (hereinafter - the "Offering"), the Bank was required, under the purchase agreement (hereinafter - the "Purchase Agreement") with the underwriters, which was signed shortly after the pricing of the offering was completed, to indemnify the underwriters and parties associated with them, for damages, lawsuits and losses which they shall incur, if incurred, in accordance with the US Securities Act or the United States Securities Exchange Act of 1934 (hereinafter - the "Securities Exchange Act") in respect of material incorrect details, or which are purported to be incorrect, which were included in the offering documents or any other information submitted by the Bank or in its name in relation to the offering, or omission of material details and/or claim regarding such an omission of details from said documents or information.

Note 27 - Pledges and Restrictions

As of December 31 2021 and December 31 2020, the bonds and capital notes issued by Israeli consolidated companies are not secured by floating pledges on their assets. Consolidated companies placed pledges on securities and other assets to secure deposits received from Federal Home Loan Bank (FHLB) as well as certain obligations pursuant to requirements of the governments of countries in which they operate. The pledged assets amount to NIS 543 million (December 31 2020 – NIS 2,360 million). Total liabilities in respect of which liens were placed on assets is NIS 385 million (December 31 2020 – NIS 670 million).

In its capacity as a member of the Tel Aviv Stock Exchange, the Bank is a member of the risk reserve of the Stock Exchange's Clearing House.

The amount of the risk reserve shall be equal to the amount of the largest periodic debit balance that a member had during the six months that ended in the calendar month before the updating date. The risk reserve updates the amounts 4 times a year.

Each risk reserve member places pledges on securities in favor of the Stock Exchange's Clearing House to secure payment of the member's proportionate share in the Risk Fund and also as surety for the performance of all that member's other obligations towards the Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members in the event that the collateral provided by another member do not cover all its obligations, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the obligations towards the Stock Exchange's clearing house. As of December 31 2021, the Bank's-share in the Stock Exchange Clearing House's risk reserve is NIS 289 million (December 31 2020 – NIS 175 million). The total amount of assets pledged by the Bank in favor of the Stock Exchange's Clearing House is NIS 358 million (December 31 2020 – NIS 344 million).

The Bank is also a member of the risk reserve of the MAOF Clearing House. The Bank undertook to pay the MAOF Clearing House any financial obligation arising from the MAOF transactions it carries out for its customers, from its own portfolio and from MAOF transactions of other Stock Exchange members not clearing independently via the MAOF Clearing House. The amount of the Bank's liability is presented in Note 30D. Off balance-sheet financial instruments.

The Bank provides collateral in favor of the MAOF Clearing House to secure payment of its proportionate share in the risk reserve and also as a guarantee for the performance of all its aforementioned obligations towards the MAOF Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members. In the event that the collateral provided by another member of the risk reserve do not cover all of its obligations, the MAOF Clearing House may also realize the collateral provided by other Risk Fund members, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the commitments towards the MAOF Clearing House.

Note 27 - Pledges and Restrictions (cont.)

As of December 31 2021, the Bank's-share in the MAOF Clearing House's risk reserve is NIS 125 million (December 31 2020 – NIS 162 million).

Like any other clearing house member, the Bank may secure its obligations to the risk reserve of the MAOF Clearing House by placing pledges on government bonds and deposits. The total amount of bonds and deposits pledged by the Bank in favor of the MAOF Clearing House in respect of customers' activity, the nostro portfolio and the Risk Fund as of December 31 2021 is NIS 1,036 million (December 31 2020 – NIS 903 million).

In its capacity as a participant in the TGS ("Zahav") system, a holder of a clearing account of that system, a member of the MASAV payments system and the check clearing system (hereinafter - "Participant"), the Bank is a party to an arrangement whose aim is to ensure the finality of settlement of transactions in default events where funds in the clearing account of one or more of the other participants do not cover the obligations. In the event of default, each non-defaulting Participant ("Surviving Participant") is to bear the obligations of the defaulting Participant according to the proportionate share of the Surviving Participant divided by the difference between 100 percent and the defaulting participant's proportionate share. As of December 31 2021, the Bank's pro rata share in MASAV and in the check clearing system is 17.5 percent and 21.45 percent, respectively; this percentage is updated every six months according to the pro rata share of each Participant's transactions settled via the relevant payments system during the previous six months. The overall ceiling for participation of all Participants in the MASAV and the check clearing system is NIS 300 million and NIS 150 million, respectively. In the event of default, the Bank of Israel will send a multi-party payment instruction debiting the clearing account of the defaulting Participant and crediting the clearing accounts of the Surviving Participant by the amount that each Surviving Participant paid under the arrangement, with the addition of interest at the Actual Bank of Israel Rate of Interest. Such instruction will be issued immediately after the system opens on the business day following the default day. The default arrangement is not intended to deal with a situation of a known or probable insolvency. In case of insolvency, the Banking Supervision Department will deal with the matter.

The Bank signed a credit line agreement with Euroclear at the total amount of USD 150 million as surety for the clearing of customers' securities. The credit facility is backed with securities held by the Bank with Euroclear.

The Bank and consolidated companies enter into Credit Support Annex (CSA) agreements with counterparties, whose purpose is to mitigate the mutual credit risks arising between the parties from derivatives trading. According the agreements, the value of all derivatives transactions carried out between the parties is measured on a periodic basis and if the net exposure of one of the parties exceeds a pre-determined threshold, that party is required to transfer to the other party deposits at the exposure amount by the next measurement date. As of December 31 2021, the Group made available to the above counterparties deposits totaling USD 1,611 million (December 31 2020 - USD 1,363 million).

The Bank and its consolidated companies enter into agreements with counterparties for the purpose of entering into tradable futures in foreign exchanges on behalf of the Bank, the consolidated companies and their customers. As of December 31 2021, the Group deposited with the above counterparties USD 1,217 million (December 31 2020 - USD 913 million).

In addition, to limit the exposure, the Group transferred as a transfer to hedge exposure totaling USD 2,066 million (2020 - USD 795 million and EUR 315 million and CAD 50 million). It should be noted that the majority of the collateral transferred in respect of customers' activity in connection with these transactions were customer funds in accordance with the hedge exposure agreements they signed with the Bank.

As of September 1 2021, the Bank is subject to a reform requiring the deposit of initial margins for non-centrally cleared derivatives (OTC derivatives), set by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO). The reform - which applies to the relationship of banks with foreign financial institutions - requires deposit of the said initial margins (subject to a threshold of EUR 50 billion in Europe and USD 50 billion in the US) in respect of a certain counterparty, by pledging a securities account, in trust, with a foreign custodian, by each party for the other party. According to the reform, if a bank exceeds the USD 50 million threshold, the two parties deposit IM by pledging securities with a third party.

Note 27 - Pledges and Restrictions (cont.)

On May 21 2008, the Bank signed a bond whereunder it placed a first floating pledge, in favor of the Bank of Israel, on its rights to receive NIS-denominated funds and charges that are payable and will be payable to the Bank, from time to time, from its corporate customers (incorporated under the laws of the State of Israel), the loans extended to which by the Bank are not in arrears, in respect of NIS loans whose average duration does not exceed three years which were extended and will be extended by the Bank to the aforementioned customers.

The purpose of this pledge is to secure loans that might be extended to the Bank by the Bank of Israel for the Bank's activity as the provider of shekel liquidity services to the Continuous Linked Settlement (CLS) Bank, plus interest, costs and expenses arising from realizing the pledge, up to a total of NIS 1.1 billion, in accordance with the provisions of the loan agreement signed between the parties in connection with this matter.

On October 26 2010, the Bank signed a bond whereunder it placed a fixed first pledge and assignment by way of pledge, unlimited in amount, in favor of the Bank of Israel on all assets and rights in specific accounts in the name of the Bank Israel with the Tel Aviv Stock Exchange's Clearing House, with Euroclear Bank or with any other clearing house agreed about by the Bank and the Bank of Israel. Assets subject to a lien in the Euroclear Bank or in another account with a clearing house abroad are also subject to a first floating lien in favor of the Bank of Israel.

On February 25 2021, the Bank signed a bond, according to which, in addition to these pledges, it pledged to the Bank of Israel, as a first degree pledge and by collateral assignment, in an unlimited amount, all of its interests for and in relation to a portion of the housing loan portfolio secured by real estate interests. On December 29 2021, the bond was revised, and the housing loans pledge under the bond was revised.

The purpose of this pledges is to secure all of the Bank's obligations in connection with credit that has been extended or will be extended to the Bank by the Bank of Israel as set out in the loan documents, except for credit that the Bank of Israel may extend to the Bank in respect of the Bank's activity as a liquidity service provider, in shekels, to CLS.

During 2021, the Bank of Israel continued to supply the banking system with long-term loans in an effort to increase the banking credit supply to small and micro businesses, against collateral, as is the case in any monetary loan provided by the Bank of Israel. Under these programs, which started in 2020, the Bank received, during 2021, credit in the amount of NIS 8.1 billion, secured by said pledges. As of December 31 2021, this outstanding credit amounts to NIS 16.9 billion.

Sources and utilization

	December 31	
	2021	2020
	In NIS millions	
Sources of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities received in transactions for lending of securities against cash	**2,447**	3,019
Applications of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities lent in transactions for lending securities against cash	**2,282**	605

Apart from these securities, as of balance sheet date, additional securities were provided as collateral, shown under the securities item above; lenders are not allowed to sell or pledge those securities.

The Bank also deposits government bonds as collateral for tradable futures activity, in lieu of cash. These securities are held in the available-for-sale portfolio.

From time to time, the Bank deposits collateral with Leumi USA (monetary deposits or government bonds) to back the Bank's liabilities in relation to credit provided by Bank Leumi USA to secure liabilities of Bank Leumi of Israel, in accordance with the directives of the Federal Reserve. These collateral are deposited as part of a designated deposit agreement signed in May 2018, which replaced a deed of pledge from September 2010. As of December 31 2021, the amount of collateral deposited was USD 242 million in US government bonds (December 31 2020 - USD 160 million).

Note 28A – Derivatives and Hedging Activities

Overview

The aforementioned activity involves taking risks, the principal of which are:

- Credit risk which is measured according to the loss amount the Bank may incur if the counterparty to the transaction fails to meet the terms and conditions of the transaction. Customer collateral are required to cover the risk in accordance with the risk arising from the transactions. The required collateral are included within the collateral required in respect of the total amount of the customer's indebtedness.
- Market risks include risks stemming from changes in interest rates, exchange rates, the CPI, prices of securities/indexes and prices of commodities. The market risks stemming from derivatives transactions constitute a part of the total market risks of the financial instruments. Derivatives activities are carried out within the limits set by Group companies' Board of Directors with regard to exposure to market risks.
- Liquidity risk is the risk arising due to uncertainty regarding the price which the Bank will be required to pay to cover the transaction. This risk arises mainly from instruments whose tradability or the tradability of their underlying asset is low. This risk was taken into account when calculating the required collateral.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	December 31 2021		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	5,775	19,214	24,989
Written options	1,244	1,906	3,150
Purchased options	-	1,523	1,523
Swaps[(a)]	24,131	208,781	232,912
Total[(b)]	31,150	231,424	262,574
Of which: Hedging derivatives[(c)]	6,422	-	6,422
b) Foreign currency contracts			
Futures and forwards[(d)]	62,183	239,898	302,081
Written options	1,160	29,797	30,957
Purchased options	1,160	26,927	28,087
Swaps[(a)]	156	18,295	18,451
Total	64,659	314,917	379,576
Of which: Hedging derivatives[(c)]	-	-	-
c) Stock contracts			
Futures and forwards	299	195,851	196,150
Written options	1,099	22,234	23,333
Purchased options[(e)]	983	22,343	23,326
Other	7	-	7
Swaps	572	101,155	101,727
Total	2,960	341,583	344,543
d) Commodities and other contracts			
Futures and forwards	-	420	420
Written options	-	261	261
Purchased options	-	260	260
Swaps	-	15,826	15,826
Total	-	16,767	16,767
e) Credit contracts			
Where the Bank is a guarantor	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	98,769	904,691	1,003,460

(a) Of which: swaps for which the banking corporation pays a fixed interest of NIS 117,740 million.
(b) Of which: NIS-CPI swaps totaling NIS 15,102 million.
(c) Mainly including hedging transactions and interest rate swaps (IRS).
(d) Of which: foreign exchange spots totaling NIS 11,156 million.
(e) Of which a total of NIS 22,166 million is traded on the Tel Aviv Stock Exchange.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2020		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	2,309	21,497	23,806
Written options	1,350	6,732	8,082
Purchased options	-	3,899	3,899
Swaps(a)	22,330	187,068	209,398
Total(b)	25,989	219,196	245,185
Of which: Hedging derivatives(c)	5,973	-	5,973
b) Foreign currency contracts			
Futures and forwards(d)	42,487	189,234	231,721
Written options	844	15,469	16,313
Purchased options	844	16,511	17,355
Swaps(a)	711	18,541	19,252
Total	44,886	239,755	284,641
Of which: Hedging derivatives(c)	-	-	-
c) Stock contracts			
Futures and forwards	462	134,763	135,225
Written options	824	22,340	23,164
Purchased options(e)	730	22,341	23,071
Swaps	73	75,894	75,967
Total	2,089	255,338	257,427
d) Commodities and other contracts			
Futures and forwards	-	2,778	2,778
Written options	-	254	254
Purchased options	-	254	254
Swaps	-	157	157
Total	-	3,443	3,443
e) Credit contracts			
Where the Bank is a guarantor	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	72,964	717,732	790,696

(a) Of which: swaps for which the banking corporation pays a fixed interest of NIS 103,343 million.
(b) Of which: NIS-CPI swaps totaling NIS 12,553 million.
(c) Mainly including hedging transactions and interest rate swaps (IRS).
(d) Of which: foreign exchange spots totaling NIS 12,852 million.
(e) Of which a total of NIS 22,272 million is traded on the Tel Aviv Stock Exchange.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31 2021					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Interest rate contracts	239	2,874	3,113	310	3,033	3,343
Of which: Hedging derivatives	148	-	148	174	-	174
b) Foreign currency contracts	117	4,641	4,758	122	5,944	6,066
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	46	5,766	5,812	70	5,745	5,815
d) Commodities and other contracts	-	348	348	-	337	337
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives, gross[(a)]	402	13,629	14,031	502	15,059	15,561
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	402	13,629	14,031	502	15,059	15,561
Of which: not subject to a master netting- or similar arrangement	10	303	313	14	449	463

(a) Of which: NIS 4 million in gross fair value of assets in respect of embedded derivatives, NIS 10 million in gross fair value of liabilities in respect of embedded derivatives.

	December 31 2020					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS millions					
(2) Gross fair value of derivatives						
a) Interest rate contracts	263	4,926	5,189	633	5,070	5,703
Of which: Hedging derivatives	94	-	94	384	-	384
b) Foreign currency contracts	33	4,829	4,862	354	6,117	6,471
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	34	4,998	5,032	25	4,969	4,994
d) Commodities and other contracts	-	172	172	-	171	171
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives, gross[(a)]	330	14,925	15,255	1,012	16,327	17,339
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	330	14,925	15,255	1,012	16,327	17,339
Of which: not subject to a master netting- or similar arrangement	41	322	363	26	439	465

(a) Of which: NIS 3 million in gross fair value of assets in respect of embedded derivatives, NIS 24 million in gross fair value of liabilities in respect of embedded derivatives.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting Hedges

1. Effect of cash flow hedge accounting on accumulated other comprehensive income (loss)

	For the year ended December 31			
	2021		2020	
	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified to accumulated other comprehensive income (loss)[a]	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified to accumulated other comprehensive income (loss)[a]
	In NIS millions			
a. Derivatives used for cash flow hedges[b]				
Interest rate contracts[c]	**(40)**	**(1)**	43	-

(a) Profit (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) line item or in the noninterest finance income (expense) line item according to the line item in which the effect of the hedged item is presented.
(b) Represents amounts included in the hedge effectiveness assessment.
(c) The Bank designates certain derivatives as hedging instruments of cash flows - derivatives hedging an exposure to changes in cash flows from given loans. The effect of hedges is expected to lower the exposure to the given loans.

2. Effect of fair value hedge accounting on profit (loss)

	For the year ended December 31	
	2021	2020
	In NIS millions	
Total interest income (expense) recognized in the income statement		
Profit or loss	**(60)**	(50)
Effect of fair value hedges:		
a. Gain (loss) from fair value hedges		
Interest rate contracts[a]		
Hedged items	**(293)**	166
Hedging derivatives	**232**	(216)
B. Gain (loss) on cash flow hedges		
Interest rate contracts[a]		
Profit and loss reclassified to Accumulated other comprehensive income (loss)	**1**	-

(a) The Bank designates certain derivatives as hedging instruments of fair value, derivatives hedging exposure to interest rate received for bonds.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting hedges (cont.)

3. Items hedged at fair value hedges

	For the year ended December 31					
	2021			2020		
		Fair value adjustments which increased (decreased) the book value			Fair value adjustments which increased (decreased) the book value	
	Book value of hedged item	Existing hedge relationships	Discontinued hedge relationships	Book value of hedged item	Existing hedge relationships	Discontinued hedge relationships
	In NIS millions					
Securities - debt instruments classified as available-for-sale securities	**5,023**	**63**	**13**	5,465	303	14

4. The effect of hedging a net investment in a foreign operation on accumulated other comprehensive income (loss) and on the income statement

	For the year ended December 31			
	2021		2020	
	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from Accumulated other comprehensive income (loss)[(a)]	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from Accumulated other comprehensive income (loss)[(a)]
	In NIS millions			
Deposits serving as investment hedges, net				
Foreign currency deposits	**71**	**-**	147	-

(a) Other comprehensive income (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) line item or in the noninterest finance income (expense) line item.

5. Effect of derivatives not designated as hedging instruments on the income statement

	For the year ended December 31	
	2021	2020
	Gain (loss) recognized in income (expenses) from derivatives activity[(a)]	Gain (loss) recognized in income (expenses) from derivatives activity[(a)]
	In NIS million	
Derivatives not designated as hedging instruments		
Interest rate contracts	**143**	(535)
Foreign currency contracts	**(1,623)**	(1,071)
Stock contracts	**162**	182
Commodity- and other contracts	**15**	4
Total	**(1,303)**	(1,420)

(a) Included in the noninterest finance income (expenses) item.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Credit Risk for Derivatives by Contract Counterparty

	December 31 2021					
	Stock exchan-ges	Banks	Dealers/brokers	Govern-ments and central banks	Other	Total
	In NIS millions					
Book balance of assets in respect of derivatives[(a)(b)]	315	6,133	4,181	220	3,182	14,031
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	2,566	2,816	2	1,933	7,317
Credit risk mitigation in respect of cash collateral received	-	3,410	1,139	216	182	4,947
Net amount of assets in respect of derivatives	315	157	226	2	1,067	1,767
Off-balance sheet credit risk for derivatives[(d)(e)]	563	8,190	6,824	105	11,443	27,125
Mitigation of off-balance-sheet credit risk	-	1,845	2,307	-	6,168	10,320
Net off-balance-sheet credit risk for derivatives	563	6,345	4,517	105	5,275	16,805
Total credit risk for derivatives	878	6,502	4,743	107	6,342	18,572
Book balance of liabilities in respect of derivatives[(a)(c)]	222	3,108	3,575	2	8,654	15,561
Gross amounts not netted on the balance sheet:						
Financial instruments	-	2,566	2,816	2	1,933	7,317
Pledged cash collateral	-	415	755	-	4,862	6,032
Net amount of liabilities in respect of derivatives	222	127	4	-	1,859	2,212

	December 31 2020					
	Stock exchanges	Banks	Dealers/brokers	Governments and central banks	Other	Total
	In NIS millions					
Book balance of assets in respect of derivatives[(a)(b)]	228	8,871	2,764	166	3,226	15,255
Gross amounts not netted on the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	6,204	1,409	28	1,714	9,355
Credit risk mitigation in respect of cash collateral received	-	2,304	1,020	135	325	3,784
Net amount of assets in respect of derivatives	228	363	335	3	1,187	2,116
Off-balance sheet credit risk for derivatives[(d)(e)]	352	6,720	4,061	91	8,222	19,446
Mitigation of off-balance-sheet credit risk	-	2,230	912	9	4,431	7,582
Net off-balance-sheet credit risk for derivatives	352	4,490	3,149	82	3,791	11,864
Total credit risk for derivatives	580	4,853	3,484	85	4,978	13,980
Book balance of liabilities in respect of derivatives[(a)(c)]	191	7,525	1,562	28	8,033	17,339
Gross amounts not netted on the balance sheet:						
Financial instruments	-	6,204	1,409	28	1,714	9,355
Pledged cash collateral	-	1,025	148	-	4,321	5,494
Net amount of liabilities in respect of derivatives	191	296	5	-	1,998	2,490

(a) The Bank did not apply netting agreements.
(b) Of which book balance of assets in respect of standalone derivatives totaling NIS 14,027 million (December 31 2020 - NIS 15,252 million).
(c) Of which book balance of liabilities in respect of standalone derivatives totaling NIS 15,551 million (December 31 2020 - NIS 17,315 million).
(d) Off-balance-sheet credit risk for derivatives (including derivatives with negative fair value) before credit risk mitigation, as calculated for the purpose of limitations on borrower indebtedness.
(e) The difference, if positive, between all total amounts for derivatives (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower credit limitations, before credit risk mitigation, and the book balance of assets for the borrower's derivatives.

Comments:
1. No loan losses were recognized in respect of derivatives in 2021 and 2020.
2. The effect of the counterparty credit risk and the effect of deferred gains at the transaction execution date on the valuation of assets for derivatives as at December 31 2021 and December 31 2020 was NIS 174 million and NIS 145 million, respectively. The effect of the non-performance risk of the valuation of f liabilities for derivatives as at December 31 2021 and December 31 2020 was, respectively, NIS 35 million and NIS 34 million.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

D. Breakdown of Settlement Dates - Par Value: Balances

	December 31 2021				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	1,245	3,958	7,771	2,128	15,102
Other	25,031	29,342	128,720	64,379	247,472
Foreign currency contracts	221,426	130,603	21,660	5,887	379,576
Stock contracts	265,204	75,727	3,612	-	344,543
Commodity- and other contracts	11,099	5,668	-	-	16,767
Total	524,005	245,298	161,763	72,394	1,003,460

	December 31 2020				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS millions				
Interest rate contracts:					
NIS-CPI	1,422	2,005	6,881	2,245	12,553
Other	30,397	36,429	101,365	64,441	232,632
Foreign currency contracts	173,175	87,725	18,982	4,759	284,641
Stock contracts	204,914	51,825	688	-	257,427
Commodity- and other contracts	965	2,478	-	-	3,443
Total	410,873	180,462	127,916	71,445	790,696

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity

Regulatory operating segments are reported according to the format and classifications prescribed by the Reporting to the Public Directives of the Banking Supervision Department, as follows:

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment – private individuals with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) ranging from NIS 10 million to less than NIS 50 million.
5. Mid-market segment – businesses whose turnover (or annual income) is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporate segment – businesses whose turnover (or annual income) is equal to or higher than NIS 250 million.
7. Institutional entities segment - includes institutional clients as defined by the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, including provident funds, pension funds, study funds, mutual funds, exchange-traded notes (ETNs), insurers, members of the TASE managing customers' money.
8. Financial management segment – includes the following activities:
   a. Trading activities - investment in tradable securities, market-making activity involving securities and derivatives, activity in derivatives not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving held-for-trading securities, short selling of securities, securities' underwriting services.
   b. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges of exchange rate differentials in respect of investments in foreign offices, deposits with and by governments.
   c. Non-financial investment activity – investment in not held for-trading equity securities and investments in associates of businesses.
   d. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
9. Other segment – including discontinued operations, gains on amounts funded for employee benefits and other results related to employee benefits which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

Customer classification

According to the circular, when a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit line, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million - into the corporate segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information and improve the data.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments

	For the year ended December 31 2021			
	Activity in Israel[a]			
	House-holds[e]	Private banking	Small- and micro-businesses	Mid-market
	In NIS millions			
Interest income from external	4,542	7	1,962	920
Interest expense for external	226	62	85	71
Interest income, net:				
From external	4,316	(55)	1,877	849
Inter-segmental	(1,819)	95	(83)	(69)
Total interest income, net	2,497	40	1,794	780
Total noninterest income	1,005	169	826	324
Total income	3,502	209	2,620	1,104
Loan-loss expenses (income)	(185)	-	(240)	(143)
Operating and other expenses:				
For external	2,795	95	1,555	458
Inter-segmental	-	-	-	-
Total operating and other expenses	2,795	95	1,555	458
Profit (loss) before taxes	892	114	1,305	789
Provision for profit tax (benefit)	313	40	462	280
Profit (loss) after taxes	579	74	843	509
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	579	74	843	509
Net income attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	579	74	843	509
Average outstanding balance of assets[b]	121,559	384	53,702	31,356
Of which: Investment in associates[b]	-	-	-	-
Average outstanding loans to the public[b]	122,401	377	54,311	31,680
Outstanding loans to the public as at the end of the reporting period	131,313	429	57,527	34,534
Outstanding impaired debts	390	-	599	401
Outstanding debts in arrears of over 90 days	657	-	70	7
Average outstanding balance of liabilities[b]	122,028	25,698	82,423	55,562
Of which: Average balance of deposits by the public[b]	121,968	25,696	82,329	55,480
Balance of deposits by the public as at the end of the reporting period	120,483	25,965	86,888	60,874
Average balance of risk-weighted assets[b][c]	81,285	701	51,505	34,396
Balance of risk-weighted assets as at the end of the reporting period[c]	86,779	710	54,029	37,628
Average balance of assets under management[b][d]	66,598	50,077	78,350	28,887
Breakdown of interest income, net:				
Spread from granting loans to the public	2,267	5	1,701	743
Spread from taking deposits by the public	230	35	93	37
Other	-	-	-	-
Total interest income, net	2,497	40	1,794	780

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 16.4 billion to customers whose business activity is classified to business segments.

					Foreign operations				
Corpora-tions	Institutional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
2,206	19	1,017	-	10,673	34	847	118	999	11,672
184	221	440	-	1,289	7	28	2	37	1,326
2,022	(202)	577	-	9,384	27	819	116	962	10,346
(412)	256	2,049	(2)	15	9	(22)	(2)	(15)	-
1,610	54	2,626	(2)	9,399	36	797	114	947	10,346
593	181	1,909	256	5,263	89	110	49	248	5,511
2,203	235	4,535	254	14,662	125	907	163	1,195	15,857
(201)	3	(42)	-	(808)	(5)	1	-	(4)	(812)
445	232	395	692	6,667	63	663	35	761	7,428
-	1	11	(12)	-	-	-	-	-	-
445	233	406	680	6,667	63	663	35	761	7,428
1,959	(1)	4,171	(426)	8,803	67	243	128	438	9,241
689	-	1,495	(106)	3,173	16	60	26	102	3,275
1,270	(1)	2,676	(320)	5,630	51	183	102	336	5,966
-	-	101	-	101	-	-	-	-	101
1,270	(1)	2,777	(320)	5,731	51	183	102	336	6,067
-	-	-	-	-	6	18	15	39	39
1,270	(1)	2,777	(320)	5,731	45	165	87	297	6,028
82,652	4,627	254,205	8,314	556,799	1,729	21,583	9,056	32,368	589,167
-	-	794	-	794	-	-	-	-	794
83,743	4,634	-	-	297,146	473	22,469	-	22,942	320,088
93,927	5,824	-	-	323,554	407	23,430	-	23,837	347,391
1,156	2	-	-	2,548	1	400	-	401	2,949
3	-	-	-	737	-	204	-	204	941
78,271	93,592	50,565	14,081	522,220	6,447	17,270	2,688	26,405	548,625
75,279	93,030	-	-	453,782	6,397	17,983	698	25,078	478,860
90,223	127,883	-	-	512,316	5,723	18,662	568	24,953	537,269
101,581	909	29,661	17,892	317,930	207	26,222	2,946	29,375	347,305
114,097	1,050	33,183	16,778	344,254	196	27,676	2,650	30,522	374,776
104,078	934,492	47,450	4	1,309,936	16,257	1,491	-	17,748	1,327,684
1,577	18	3,349	(1)	9,659	8	439	431	878	10,537
33	35	(1,272)	1	(808)	28	358	(425)	(39)	(847)
-	1	549	(2)	548	-	-	108	108	656
1,610	54	2,626	(2)	9,399	36	797	114	947	10,346

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2020			
	Activity in Israel[(a)]			
	House-holds[(e)]	Private banking	Small- and micro-businesses	Mid-market
	In NIS millions			
Interest income from external	3,362	4	1,950	825
Interest expense for external	178	107	128	156
Interest income, net:				
From external	3,184	(103)	1,822	669
Inter-segmental	(690)	160	(20)	55
Total interest income, net	2,494	57	1,802	724
Total noninterest income	984	151	773	290
Total income	3,478	208	2,575	1,014
Loan-loss expenses (income)	445	-	569	285
Operating and other expenses:				
For external	2,567	83	1,531	421
Inter-segmental	21	-	-	-
Total operating and other expenses	2,588	83	1,531	421
Profit (loss) before taxes	445	125	475	308
Provision for profit tax (benefit)	163	47	177	117
Profit (loss) after taxes	282	78	298	191
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	282	78	298	191
Net income (loss) attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	282	78	298	191
Average outstanding balance of assets[(b)]	111,951	314	49,304	27,875
Of which: Investment in associates[(b)]	-	-	-	-
Average outstanding loans to the public[(b)]	112,629	307	49,873	28,197
Outstanding loans to the public as at the end of the reporting period	116,345	320	50,658	29,502
Outstanding impaired debts	362	-	821	448
Outstanding debts in arrears of over 90 days	758	-	38	-
Average outstanding balance of liabilities[(b)]	117,069	25,653	70,842	43,406
Of which: Average balance of deposits by the public[(b)]	116,986	25,650	70,749	43,319
Balance of deposits by the public as at the end of the reporting period	121,146	26,082	77,259	47,145
Average balance of risk-weighted assets[(b)(c)]	77,577	1,349	48,452	31,374
Balance of risk-weighted assets as at the end of the reporting period[(c)]	78,967	695	49,136	32,806
Average balance of assets under management[(b)(d)]	61,996	41,741	59,238	23,901
Breakdown of interest income, net:				
Spread from granting loans to the public	2,207	2	1,678	662
Spread from taking deposits by the public	287	55	124	62
Other	-	-	-	-
Total interest income, net	2,494	57	1,802	724

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 14.2 billion to customers whose business activity is classified to business segments.

					Foreign operations				
Corpora-tions	Institutional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
1,868	18	1,091	-	9,118	40	902	115	1,057	10,175
198	196	376	-	1,339	48	58	7	113	1,452
1,670	(178)	715	-	7,779	(8)	844	108	944	8,723
(229)	251	487	(6)	8	(49)	56	(15)	(8)	-
1,441	73	1,202	(6)	7,787	(57)	900	93	936	8,723
549	207	1,127	22	4,103	76	98	89	263	4,366
1,990	280	2,329	16	11,890	19	998	182	1,199	13,089
1,001	(1)	(29)	-	2,270	1	281	-	282	2,552
376	214	359	717	6,268	191	470	117	778	7,046
-	17	(38)	-	-	-	-	-	-	-
376	231	321	717	6,268	191	470	117	778	7,046
613	50	2,037	(701)	3,352	(173)	247	65	139	3,491
219	19	804	(229)	1,317	(46)	74	11	39	1,356
394	31	1,233	(472)	2,035	(127)	173	54	100	2,135
-	-	(13)	-	(13)	-	-	-	-	(13)
394	31	1,220	(472)	2,022	(127)	173	54	100	2,122
-	-	-	-	-	(19)	32	7	20	20
394	31	1,220	(472)	2,022	(108)	141	47	80	2,102
71,631	4,030	207,738	9,225	482,068	1,967	21,710	7,623	31,300	513,368
-	-	743	-	743	-	-	-	-	743
72,320	4,033	-	-	267,359	554	23,102	-	23,656	291,015
77,154	4,386	-	-	278,365	532	21,734	-	22,266	300,631
1,758	1	-	-	3,390	25	604	-	629	4,019
4	-	-	-	800	-	14	-	14	814
62,972	72,039	47,376	11,487	450,844	7,398	16,432	1,499	25,329	476,173
59,951	71,482	-	-	388,137	7,187	16,194	712	24,093	412,230
72,512	80,499	-	-	424,643	6,555	15,100	733	22,388	447,031
88,399	919	27,515	18,396	293,981	421	27,484	2,819	30,724	324,705
94,872	753	26,802	18,505	302,536	144	25,114	3,057	28,315	330,851
62,860	794,455	40,228	-	1,084,419	15,689	1,588	-	17,277	1,101,696
1,386	14	2,090	(7)	8,032	(2)	530	409	937	8,969
55	59	(1,583)	-	(941)	(55)	370	(427)	(112)	(1,053)
-	-	695	1	696	-	-	111	111	807
1,441	73	1,202	(6)	7,787	(57)	900	93	936	8,723

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31 2019[f]			
	Activity in Israel[a]			
	House-holds[e]	Private banking	Small- and micro-businesses	Mid-market
	In NIS millions			
Interest income from external	3,716	4	2,080	842
Interest expense for external	300	176	189	262
Interest income, net:				
From external	3,416	(172)	1,891	580
Inter-segmental	(710)	287	173	283
Total interest income, net	2,706	115	2,064	863
Total noninterest income	967	145	745	306
Total income	3,673	260	2,809	1,169
Loan-loss expenses (income)	157	-	372	31
Operating and other expenses:				
For external	3,101	100	1,543	502
Inter-segmental	27	-	-	-
Total operating and other expenses	3,128	100	1,543	502
Profit (loss) before taxes	388	160	894	636
Provision for profit tax (benefit)	119	57	326	229
Profit (loss) after taxes	269	103	568	407
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	269	103	568	407
Net income (loss) attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	269	103	568	407
Average outstanding balance of assets[b]	110,172	332	49,679	27,771
Of which: Investment in associates[b]	-	-	-	-
Average outstanding loans to the public[b]	110,591	328	50,375	28,020
Outstanding loans to the public as at the end of the reporting period	112,273	346	50,605	28,879
Outstanding impaired debts	310	-	762	259
Outstanding debts in arrears of over 90 days	888	-	72	-
Average outstanding balance of liabilities[b]	107,842	23,498	58,035	38,456
Of which: Average balance of deposits by the public[b]	107,746	23,491	57,926	38,357
Balance of deposits by the public as at the end of the reporting period	106,796	23,717	57,988	40,919
Average balance of risk-weighted assets[b][d]	75,945	730	47,876	29,940
Balance of risk-weighted assets as at the end of the reporting period[c]	77,731	742	48,528	31,321
Average balance of assets under management[b][d]	67,701	43,681	51,617	26,111
Breakdown of interest income, net:				
Spread from granting loans to the public	2,291	2	1,806	651
Spread from taking deposits by the public	415	113	258	212
Other	-	-	-	-
Total interest income, net	2,706	115	2,064	863

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 12.9 billion to customers whose business activity is classified to business segments.
(f) Reclassified.

Corpora-tions	Institutional entities	Financial manage-ment	Other	Total activity in Israel	Foreign operations				Total
					Private individuals	Business activity	Other	Foreign operations - total	
1,973	33	1,449	-	10,097	72	1,106	162	1,340	11,437
353	490	536	-	2,306	103	172	15	290	2,596
1,620	(457)	913	-	7,791	(31)	934	147	1,050	8,841
(163)	631	(468)	6	39	135	(199)	25	(39)	-
1,457	174	445	6	7,830	104	735	172	1,011	8,841
559	170	1,541	369	4,802	86	113	80	279	5,081
2,016	344	1,986	375	12,632	190	848	252	1,290	13,922
27	(6)	(30)	-	551	(1)	59	-	58	609
496	252	269	813	7,076	211	483	138	832	7,908
1	22	(43)	-	7	-	-	(7)	(7)	-
497	274	226	813	7,083	211	483	131	825	7,908
1,492	76	1,790	(438)	4,998	(20)	306	121	407	5,405
536	28	677	(214)	1,758	(6)	77	1	72	1,830
956	48	1,113	(224)	3,240	(14)	229	120	335	3,575
-	-	(15)	-	(15)	-	-	-	-	(15)
956	48	1,098	(224)	3,225	(14)	229	120	335	3,560
-	-	-	-	-	(3)	29	12	38	38
956	48	1,098	(224)	3,225	(11)	200	108	297	3,522
64,446	2,137	163,559	10,207	428,303	1,237	23,386	7,573	32,196	460,499
-	-	625	-	625	-	-	-	-	625
64,767	2,142	-	-	256,223	856	23,476	1	24,333	280,556
67,085	3,399	-	-	262,587	552	22,667	-	23,219	285,806
699	-	-	-	2,030	1	500	-	501	2,531
17	-	-	-	977	-	3	-	3	980
51,155	66,919	40,126	13,152	399,183	5,198	18,494	1,647	25,339	424,522
47,612	65,932	-	-	341,064	5,121	18,348	870	24,339	365,403
53,531	68,329	-	-	351,280	6,192	15,334	838	22,364	373,644
81,678	988	25,378	18,104	280,639	562	28,770	3,092	32,424	313,063
83,973	1,014	24,953	17,675	285,937	433	27,849	2,245	30,527	316,464
71,165	735,417	51,368	-	1,047,060	16,255	1,198	-	17,453	1,064,513
1,301	1	2,589	6	8,647	10	440	729	1,179	9,826
156	172	(3,065)	(1)	(1,740)	94	295	(675)	(286)	(2,026)
-	1	921	1	923	-	-	118	118	1,041
1,457	174	445	6	7,830	104	735	172	1,011	8,841

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking

	For the year ended December 31 2021								
	Households segment				Private banking segment				Private indivi-duals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS millions								
Interest income from external	3,285	50	1,207	4,542	4	-	3	7	4,549
Interest expense from external	-	-	226	226	-	-	62	62	288
Interest income, net:									
From external	3,285	50	981	4,316	4	-	(59)	(55)	4,261
Inter-segmental	(2,159)	(1)	341	(1,819)	(2)	-	97	95	(1,724)
Total interest income, net	1,126	49	1,322	2,497	2	-	38	40	2,537
Total noninterest income	55	243	707	1,005	-	4	165	169	1,174
Total income	1,181	292	2,029	3,502	2	4	203	209	3,711
Loan-loss expenses (income)	(141)	(2)	(42)	(185)	-	-	-	-	(185)
Operating and other expenses:									
For external	318	216	2,261	2,795	-	4	91	95	2,890
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	318	216	2,261	2,795	-	4	91	95	2,890
Profit (loss) before taxes	1,004	78	(190)	892	2	-	112	114	1,006
Provision for profit tax (benefit)	351	28	(66)	313	-	-	40	40	353
Profit (loss) after taxes	653	50	(124)	579	2	-	72	74	653
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before attribution to non-controlling interests	653	50	(124)	579	2	-	72	74	653
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	653	50	(124)	579	2	-	72	74	653
Average balance of assets[a]	95,435	3,532	22,592	21,559	145	82	157	384	121,943
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	95,741	3,571	23,089	122,401	145	83	149	377	122,778
Outstanding loans to the public as at the end of the reporting period	103,429	3,983	23,901	131,313	181	89	159	429	131,742
Outstanding impaired debts	20	2	368	390	-	-	-	-	390
Outstanding debts in arrears of over 90 days	609	-	48	657	-	-	-	-	657
Average outstanding liabilities[a]	17	5	122,006	22,028	-	-	25,698	25,698	147,726
Of which: Average balance of deposits by the public[a]	-	-	121,968	121,968	-	-	25,696	25,696	147,664
Balance of deposits by the public as at the end of the reporting period	-	-	120,483	120,483	-	-	25,965	25,965	146,448
Average balance of risk-weighted assets[a][b]	58,708	3,512	19,065	81,285	182	173	346	701	81,986
Balance of risk-weighted assets as at the end of the reporting period[b]	63,487	3,437	19,855	86,779	237	145	328	710	87,489
Average balance of assets under management[a][c]	3,070	-	63,528	66,598	3	-	50,074	50,077	116,675
Breakdown of interest income, net:									
Spread from granting loans to the public	1,126	49	1,092	2,267	2	-	3	5	2,272
Spread from taking deposits by the public	-	-	230	230	-	-	35	35	265
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	1,126	49	1,322	2,497	2	-	38	40	2,537

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purposes.

(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Private individuals – households and private banking (cont.)

	For the year ended December 31 2020								
	Households segment				Private banking segment				Private indivi-duals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS millions								
Interest income from external	2,038	59	1,265	3,362	2	-	2	4	3,366
Interest expense from external	-	-	178	178	-	-	107	107	285
Interest income, net:									
From external	2,038	59	1,087	3,184	2	-	(105)	(103)	3,081
Inter-segmental	(1,043)	(3)	356	(690)	(1)	-	161	160	(530)
Total interest income, net	995	56	1,443	2,494	1	-	56	57	2,551
Total noninterest income	61	226	697	984	-	3	148	151	1,135
Total income	1,056	282	2,140	3,478	1	3	204	208	3,686
Loan-loss expenses (income)	174	(1)	272	445	-	-	-	-	445
Operating and other expenses:									
For external	243	211	2,113	2,567	-	3	80	83	2,650
Inter-segmental	-	-	21	21	-	-	-	-	21
Total operating and other expenses	243	211	2,134	2,588	-	3	80	83	2,671
Profit (loss) before taxes	639	72	(266)	445	1	-	124	125	570
Provision for profit tax (benefit)	236	28	(101)	163	-	-	47	47	210
Profit (loss) after taxes	403	44	(165)	282	1	-	77	78	360
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income (loss) before attribution to non-controlling interests	403	44	(165)	282	1	-	77	78	360
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	403	44	(165)	282	1	-	77	78	360
Average balance of assets[a]	86,354	3,728	21,869	111,951	102	69	143	314	112,265
Of which: Investments in associates[a]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[a]	86,766	3,767	22,096	112,629	102	69	136	307	112,936
Outstanding loans to the public as at the end of the reporting period	90,133	4,007	22,205	116,345	103	76	141	320	116,665
Outstanding impaired debts	26	1	335	362	-	-	-	-	362
Outstanding debts in arrears of over 90 days	720	-	38	758	-	-	-	-	758
Average outstanding liabilities[a]	20	8	117,041	117,069	-	-	25,653	25,653	142,722
Of which: Average balance of deposits by the public[a]	-	-	116,986	116,986	-	-	25,650	25,650	142,636
Balance of deposits by the public as at the end of the reporting period	-	-	121,146	121,146	-	-	26,082	26,082	147,228
Average balance of risk-weighted assets[a][b]	54,266	3,730	19,581	77,577	629	143	577	1,349	78,926
Balance of risk-weighted assets as at the end of the reporting period[b]	56,335	3,799	18,833	78,967	141	216	338	695	79,662
Average balance of assets under management[a][c]	-	-	61,996	61,996	-	-	41,741	41,741	103,737
Breakdown of interest income, net:									
Spread from granting loans to the public	995	56	1,156	2,207	1	-	1	2	2,209
Spread from taking deposits by the public	-	-	287	287	-	-	55	55	342
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	995	56	1,443	2,494	1	-	56	57	2,551

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations

	For the year ended December 31 2021									
	Small- and micro-business segment			Mid-market segment			Corporate segment			
	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	710	1,252	1,962	364	556	920	1,094	1,112	2,206	5,088
Interest expense from external	14	71	85	4	67	71	15	169	184	340
Interest income, net:										
From external	696	1,181	1,877	360	489	849	1,079	943	2,022	4,748
Inter-segmental	(91)	8	(83)	(68)	(1)	(69)	(184)	(228)	(412)	(564)
Total interest income, net	605	1,189	1,794	292	488	780	895	715	1,610	4,184
Total noninterest income	138	688	826	50	274	324	333	260	593	1,743
Of which: Income from credit cards	15	79	94	1	8	9	1	2	3	106
Total income	743	1,877	2,620	342	762	1,104	1,228	975	2,203	5,927
Loan-loss expenses (income)	(5)	(235)	(240)	(20)	(123)	(143)	226	(427)	(201)	(584)
Operating and other expenses:										
For external	312	1,243	1,555	81	377	458	128	317	445	2,458
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	312	1,243	1,555	81	377	458	128	317	445	2,458
Profit before taxes	436	869	1,305	281	508	789	874	1,085	1,959	4,053
Provision for profit tax	154	308	462	100	180	280	301	388	689	1,431
Profit after taxes	282	561	843	181	328	509	573	697	1,270	2,622
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	282	561	843	181	328	509	573	697	1,270	2,622
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	282	561	843	181	328	509	573	697	1,270	2,622
Average balance of assets[(a)]	20,395	33,307	53,702	11,789	19,567	31,356	36,071	46,581	82,652	67,710
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	20,527	33,784	54,311	11,845	19,835	31,680	36,277	47,466	83,743	169,734
Outstanding loans to the public as at the end of the reporting period	21,961	35,566	57,527	12,987	21,547	34,534	44,175	49,752	93,927	185,988
Outstanding impaired debts	166	433	599	60	341	401	214	942	1,156	2,156
Outstanding debts in arrears of over 90 days	39	31	70	-	7	7	3	-	3	80
Average outstanding liabilities[(a)]	16,020	66,403	82,423	6,139	49,423	55,562	15,601	62,670	78,271	16,256
Of which: Average balance of deposits by the public[(a)]	15,986	66,343	82,329	6,105	49,375	55,480	14,933	60,346	75,279	213,088
Balance of deposits by the public as at the end of the reporting period	16,762	70,126	86,888	6,982	53,892	60,874	16,938	73,285	90,223	237,985
Average balance of risk-weighted assets[(a)(b)]	21,575	29,930	51,505	13,779	20,617	34,396	56,793	44,788	101,581	187,482
Balance of risk-weighted assets as at the end of the reporting period[(b)]	23,201	30,828	54,029	15,119	22,509	37,628	57,099	56,998	114,097	205,754
Average balance of assets under management[(a)(c)]	14,869	63,481	78,350	4,988	23,899	28,887	21,040	83,038	104,078	211,315
Breakdown of interest income, net:										
Spread from granting loans to the public	588	1,113	1,701	286	457	743	891	686	1,577	4,021
Spread - deposits by the public	17	76	93	6	31	37	4	29	33	163
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	605	1,189	1,794	292	488	780	895	715	1,610	4,184

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.

(b) Risk-weighted assets - as calculated for capital adequacy purposes.

(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations (cont.)

	For the year ended December 31 2020									
	Small- and micro-business segment			Mid-market segment			Corporate segment			
	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	668	1,282	1,950	313	512	825	839	1,029	1,868	4,643
Interest expense from external	21	107	128	8	148	156	15	183	198	482
Interest income, net:										
From external	647	1,175	1,822	305	364	669	824	846	1,670	4,161
Inter-segmental	(75)	55	(20)	(48)	103	55	(121)	(108)	(229)	(194)
Total interest income, net	572	1,230	1,802	257	467	724	703	738	1,441	3,967
Total noninterest income	138	635	773	64	226	290	328	221	549	1,612
Of which: Income from credit cards	13	68	81	1	7	8	-	2	2	91
Total income	710	1,865	2,575	321	693	1,014	1,031	959	1,990	5,579
Loan loss expenses	55	514	569	24	261	285	217	784	1,001	1,855
Operating and other expenses:										
For external	302	1,229	1,531	82	339	421	126	250	376	2,328
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	302	1,229	1,531	82	339	421	126	250	376	2,328
Profit (loss) before taxes	353	122	475	215	93	308	688	(75)	613	1,396
Provision (benefit) for profit tax	134	43	177	81	36	117	249	(30)	219	513
Profit (loss) after taxes	219	79	298	134	57	191	439	(45)	394	883
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	219	79	298	134	57	191	439	(45)	394	883
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	219	79	298	134	57	191	439	(45)	394	883
Average balance of assets(a)	18,714	30,590	49,304	9,812	18,063	27,875	26,634	44,997	71,631	148,810
Of which: Investments in associates(a)	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public(a)	18,840	31,033	49,873	9,872	18,325	28,197	26,745	45,575	72,320	150,390
Outstanding loans to the public as at the end of the reporting period	19,431	31,227	50,658	11,355	18,147	29,502	29,605	47,549	77,154	157,314
Outstanding impaired debts	231	590	821	75	373	448	280	1,478	1,758	3,027
Outstanding debts in arrears of over 90 days	9	29	38	-	-	-	3	1	4	42
Average outstanding liabilities(a)	14,008	56,834	70,842	5,580	37,826	43,406	11,295	51,677	62,972	177,220
Of which: Average balance of deposits by the public(a)	13,978	56,771	70,749	5,545	37,774	43,319	10,812	49,139	59,951	174,019
Balance of deposits by the public as at the end of the reporting period	14,927	62,332	77,259	6,311	40,834	47,145	13,272	59,240	72,512	196,916
Average balance of risk-weighted assets(a)(b)	19,839	28,613	48,452	11,633	19,741	31,374	45,732	42,667	88,399	168,225
Balance of risk-weighted assets as at the end of the reporting period(b)	20,665	28,471	49,136	13,300	19,506	32,806	50,504	44,368	94,872	176,814
Average balance of assets under management(a)(c)	10,901	48,337	59,238	3,213	20,688	23,901	15,814	47,046	62,860	145,999
Breakdown of interest income, net:										
Spread from granting loans to the public	549	1,129	1,678	250	412	662	691	695	1,386	3,726
Spread from taking deposits by the public	23	101	124	7	55	62	12	43	55	241
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	572	1,230	1,802	257	467	724	703	738	1,441	3,967

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Financial management

	For the year ended December 31 2021				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS millions				
Interest income from external	27	983	5	2	1,017
Interest expense from external	2	438	-	-	440
Interest income, net:					
From external	25	545	5	2	577
Inter-segmental	6	2,035	(9)	17	2,049
Total interest income, net	[ה]31	2,580	(4)	19	2,626
Total noninterest income	[ו]396	516	864	133	1,909
Total income	427	3,096	860	152	4,535
Loan-loss expenses (income)	-	(4)	-	(38)	(42)
Operating and other expenses:					
For external	200	41	44	110	395
Inter-segmental	-	7	2	2	11
Total operating and other expenses	200	48	46	112	406
Profit before taxes	227	3,052	814	78	4,171
Provision for profit tax	78	1,107	287	23	1,495
Profit after taxes	149	1,945	527	55	2,676
The Bank's share in associates' profits, after tax effect	-	-	101	-	101
Net income before amount attributable to non-controlling interests	149	1,945	628	55	2,777
Net income attributable to non-controlling interests	-	-	-	-	-
Net income attributable to the Bank's shareholders	149	1,945	628	55	2,777
Average balance of assets[(a)]	16,366	230,239	6,830	770	254,205
Of which: Investments in associates[(a)]	-	-	794	-	794
Average outstanding liabilities[(a)]	15,685	34,464	92	324	50,565
Of which: Average balance of deposits by the public[(a)]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[(a)(b)]	9,421	16,536	3,704	-	29,661
Balance of risk-weighted assets as at the end of the reporting period[(b)]	10,731	17,884	4,568	-	33,183
Average balance of managed assets[(c)]	-	-	-	47,450	47,450
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[(d)]	166	104	-	-	-
Exchange rate differentials, CPI[(d)]	11	722	-	-	-
Net interest exposures[(d)]	109	523	-	-	-
Net exposures to shares[(d)]	68	-	-	-	-
Interest spreads attributed to financial management	-	1,209	-	-	-
Total net interest income and noninterest income on accrual basis	354	2,558	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	230	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	312	-	-	-
Other noninterest income	73	(4)	-	-	-
Total net interest income and noninterest finance income	427	3,096	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Including for securities and derivatives.
(e) Net interest income from trading activities in Note 2 do not include inter-segmental balances in the amount of NIS 6 million.
(f) Noninterest finance income from trading activities in Note 3 does not include fees and commissions and other income in the amount of NIS 34 million and inter-segmental balances in the amount NIS 10 million and do include noninterest income for foreign activities in the amount of NIS 21 million.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Financial Management (cont.)

	For the year ended December 31 2020				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS millions				
Interest income from external	34	1,058	5	(6)	1,091
Interest expense from external	9	367	-	-	376
Interest income, net:					
From external	25	691	5	(6)	715
Inter-segmental	22	479	2	(16)	487
Total interest income, net	47[e]	1,170	7	(22)	1,202
Total noninterest income	500[f]	227	326	74	1,127
Total income	547	1,397	333	52	2,329
Loan-loss expenses (income)	-	(5)	-	(24)	(29)
Operating and other expenses:					
For external	189	49	16	105	359
Inter-segmental	-	(43)	3	2	(38)
Total operating and other expenses (income)	189	6	19	107	321
Profit (loss) before taxes	358	1,396	314	(31)	2,037
Provision for profit tax (benefit)	136	538	131	(1)	804
Profit (loss) after taxes	222	858	183	(30)	1,233
The Bank's share in associates' profits, after tax effect	-	-	(13)	-	(13)
Net income (loss) before attribution to non-controlling interests	222	858	170	(30)	1,220
Net income attributable to non-controlling interests	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	222	858	170	(30)	1,220
Average balance of assets[a]	25,411	177,519	4,497	311	207,738
Of which: Investments in associates[a]	-	-	743	-	743
Average outstanding liabilities[a]	20,310	27,020	45	1	47,376
Of which: Average balance of deposits by the public[a]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[a][b]	9,300	15,446	2,769	-	27,515
Balance of risk-weighted assets as at the end of the reporting period[b]	9,172	14,565	3,065	-	26,802
Average balance of managed assets[c]	-	-	-	40,228	40,228
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[d]	488	(21)	-	-	-
Exchange rate differentials, CPI[d]	28	(87)	-	-	-
Net interest exposures[d]	(181)	638	-	-	-
Net exposures to shares[d]	45	-	-	-	-
Interest spreads attributed to financial management	-	632	-	-	-
Total net interest income and noninterest income on accrual basis	380	1,162	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	329	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	(100)	-	-	-
Other noninterest income	167	6	-	-	-
Total net interest income and noninterest finance income	547	1,397	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Including for securities and derivatives.
(e) Net interest income from trading activities in Note 2 do not include inter-segmental balances in the amount of NIS 22 million.
(f) Noninterest finance income from trading activities in Note 3 does not include fees and commissions and other income in the amount of NIS 63 million and inter-segmental balances in the amount NIS 20 million and do include noninterest income for foreign activities in the amount of NIS 8 million.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

B. Information on Activity by Geographical Area[a]

	December 31 2021						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS millions						
Total income[b]	**14,784**	**982**	**89**	**-**	**2**	**1,073**	**15,857**
Net income (loss) attributable to the Bank's shareholders	**5,853**	**213**	**(46)**	**-**	**8**	**175**	**6,028**
Total assets	**623,478**	**26,026**	**6,928**	**-**	**22**	**32,976**	**656,454**

	December 31 2020						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS millions						
Total income[b]	11,992	1,028	68	-	1	1,097	13,089
Net income (loss) attributable to the Bank's shareholders	2,120	121	(142)	-	3	(18)	2,102
Total assets	526,844	23,484	5,684	-	23	29,191	556,035

	December 31 2019						
	Israel	USA	UK	Romania	Other	Total activity outside Israel	Total consoli-dated
	In NIS millions						
Total income (expenses)[b]	12,751	1,062	109	(2)	2	1,171	13,922
Net income (loss) attributable to the Bank's shareholders	3,360	228	(64)	(13)	11	162	3,522
Total assets	438,923	23,774	6,058	-	26	29,858	468,781

(a) The classification is based on the office's location.
(b) Interest income and noninterest income, net.

Note 29B – Operating Segments according to Management Approach

A. Overview

According to Management Approach, an operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by the Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial data is available for operating segments.
Operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure and decision of the Bank's management and Board of Directors.

- The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to retail customers and small businesses. This line of business comprises three departments: Retail Banking, Small Businesses, and Private Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Mortgages - provision of loans intended to purchase residential apartments or loans pledged by a residential apartment or another asset.
3. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
4. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
5. Real estate – providing banking and financial services to the construction and real estate sector.
6. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
7. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price in respect of deposits raised net of interest paid to customers.
- Noninterest income (noninterest finance income, fees and commissions and other income) – is allocated to the business lines according to the customer's activity.
- Business lines' expenses include their direct expenses. Expenses of corporate units providing services to business lines are allocated to the business lines.
- A significant part of the revenues from ALM are charged to the business lines according to their business activity.

The results of operations of the business lines, both in terms of on-balance sheet items and in terms of profit and loss items, are assessed on an ongoing basis by the Bank's management and Board of Directors. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach

	For the year ended December 31 2021											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Retail	Small businesses	Total Banking	Mortgages[(a)]	Commercial	Corporate	Real estate	Capital markets	Other and adjustments			Total
	In NIS millions											
Interest income, net:												
From external	1,108	1,075	2,183	3,251	1,387	1,017	1,072	357	10	106	963	10,346
Inter-segmental	776	84	860	(1,893)	(20)	(312)	(137)	1,520	(2)	-	(16)	-
Interest income, net	1,884	1,159	3,043	1,358	1,367	705	935	1,877	8	106	947	10,346
Noninterest income	1,439	460	1,899	18	468	241	326	1,009	333	969[(b)]	248	5,511
Total income	3,323	1,619	4,942	1,376	1,835	946	1,261	2,886	341	1,075	1,195	15,857
Loan-loss expenses (income)	(33)	(263)	(296)	(137)	(119)	(240)	(39)	31	(21)	13	(4)	(812)
Total operating and other expenses	2,770	982	3,752	322	731	277	134	420	825	206	761	7,428
Profit (loss) before tax	586	900	1,486	1,191	1,223	909	1,166	2,435	(463)	856	438	9,241
Provision for taxes	200	308	508	407	418	311	399	833	81	216	102	3,275
Net income (loss) attributable to the Bank's shareholders	386	592	978	784	805	598	767	1,605	(544)	738	297	6,028
Balances as at December 31 2021												
Loans to the public, net	30,335	25,745	56,080	104,525	51,408	41,417	43,665	15,749	5,532	1,006	23,497	342,879
Deposits by the public	185,452	51,329	236,781	-	86,466	33,621	13,395	142,050	3	-	24,953	537,269

(a) As of January 1 2022, the Mortgages Division was established in order to bring Bank Leumi's mortgage and housing loans operations under a single roof. Accordingly, the Division's activity is presented, as a separate segment from the banking activity.

(b) Includes the revenues of Leumi Partners Ltd. for realized and unrealized gain totaling NIS 518 million from the shares of ironSource and Retailors.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31 2020											
	The Bank									Subsi-diaries in Israel	Fo-reign subsidiaries	
	Private indivi-duals	Small busi-nesses	Banking - total	Mort-gages[(a)]	Com-mercial	Corpo-rate	Real estate	Capital markets	Other and adjust-ments			Total
	In NIS millions											
Interest income, net:												
From external	1,126	1,142	2,268	2,047	1,118	880	834	510	-	128	938	8,723
Inter-segmental[(b)]	774	38	812	(891)	103	(205)	(111)	287	-	7	(2)	-
Interest income, net	1,900	1,180	3,080	1,156	1,221	675	723	797	-	135	936	8,723
Noninterest income	1,362	459	1,821	38	428	244	312	879	127	254	263	4,366
Total income	3,262	1,639	4,901	1,194	1,649	919	1,035	1,676	127	389	1,199	13,089
Loan loss expenses (income)	333	482	815	178	352	762	210	(18)	(33)	4	282	2,552
Total operating and other expenses	2,610	951	3,561	245	667	227	125	382	871	190	778	7,046
Profit (loss) before tax	319	206	525	771	630	(70)	700	1,312	(711)	195	139	3,491
Provision (benefit) for taxes	109	70	179	264	215	(24)	239	448	(45)	41	39	1,356
Net income (loss) attributable to the Bank's shareholders	210	136	346	507	415	(46)	461	866	(666)	139	80	2,102

Balances as at December 31 2020												
Loans to the public, net	27,530	24,253	51,783	91,313	44,626	39,389	31,559	8,700	5,339	790	21,842	295,341
Deposits by the public	181,676	47,710	229,386	-	65,775	28,390	10,149	90,938	5	-	22,388	447,031

(a) As of January 1 2022, the Mortgages Division was established in order to concentrate all of Bank Leumi's mortgage and housing loans activity. Accordingly, the Division's activity is presented as a separate segment from the banking activity. In order to present comparable information, comparable figures were reclassified.

(b) As of the first quarter of 2021, it was decided to allocate a material portion of the ALM activity to the various P&Ls. To present comparative information, the comparative results were reclassified.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31 2019											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Private individuals	Small businesses	Total Banking	Mortgages[(a)]	Commercial	Corporate	Real estate	Capital markets	Other			Total
	In NIS millions											
Interest income, net:												
From external	927	1,271	2,198	2,311	972	888	821	522	1	81	1,047	8,841
Inter-segmental[(b)]	1,285	70	1,355	(1,254)	333	(233)	(183)	5	3	10	(36)	-
Interest income, net	2,212	1,341	3,553	1,057	1,305	655	638	527	4	91	1,011	8,841
Noninterest income	1,381	493	1,874	60	452	235	338	1,100	420	323	279	5,081
Total income	3,593	1,834	5,427	1,117	1,757	890	976	1,627	424	414	1,290	13,922
Loan loss expenses (income)	231	329	560	7	80	(124)	71	(37)	(13)	7	58	609
Total operating and other expenses	2,845	1,097	3,942	278	721	350	133	396	1,059	204	825	7,908
Profit (loss) before tax	517	408	925	832	956	664	772	1,268	(622)	203	407	5,405
Tax expenses (income)	177	139	316	284	327	227	264	434	(140)	47	71	1,830
Net income (loss) attributable to the Bank's shareholders	340	269	609	548	629	437	508	836	(482)	139	298	3,522
Balances as at December 31 2019												
Loans to the public, net	29,192	25,110	54,302	85,390	40,661	37,696	26,387	8,358	5,760	958	22,966	282,478
Deposits by the public	156,934	39,125	196,059	-	53,313	20,632	6,940	74,326	10	-	22,364	373,644

(a) As of January 1 2022, the Mortgages Division was established in order to concentrate all of Bank Leumi's mortgage and housing loans activity. Accordingly, the Division's activity is presented as a separate segment from the banking activity. In order to present comparable information, comparable figures were reclassified.

(b) As of the first quarter of 2021, it was decided to allocate a material portion of the ALM activity to the various P&L centers. In order to present comparable information, comparable figures were reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts[(a)] and Off-Balance Sheet Credit Instruments

1. Change in Outstanding Loan Loss Provision

	For the year ended December 31 2021					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	4,284	636	792	5,712	3	5,715
Loan loss income	(622)	(145)	(45)	(812)	-	(812)
Charge-offs	(472)	(6)	(279)	(757)	-	(757)
Collection of debts written off in previous years	584	4	259	847	-	847
Net charge-offs	112	(2)	(20)	90	-	90
Adjustments from translation of Financial Statements	(9)	-	-	(9)	-	(9)
Balance of loan loss provision as at year end[1]	3,765	489	727	4,981	3	4,984
[1]Of which: in respect of off-balance-sheet credit instruments	453	-	16	469	-	469

	For the year ended December 31 2020					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total Public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,590	467	657	3,714	2	3,716
Loan loss expenses	2,105	175	271	2,551	1	2,552
Charge-offs	(816)	(6)	(383)	(1,205)	-	(1,205)
Collection of debts written off in previous years	429	-	247	676	-	676
Net charge-offs	(387)	(6)	(136)	(529)	-	(529)
Adjustments from translation of Financial Statements	(24)	-	-	(24)	-	(24)
Balance of loan loss provision as at year end[1]	4,284	636	792	5,712	3	5,715
[1]Of which: in respect of off-balance-sheet credit instruments	402	-	20	422	-	422

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance-Sheet Credit Instruments (cont.)

1. Change in outstanding loan loss provision (cont.)

	For the year ended December 31 2019					
	Loan loss provision					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and governments	Total
	In NIS millions					
Balance of loan loss provision as at the beginning of the year	2,700	479	634	3,813	3	3,816
Loan-loss expenses (income)	454	22	134	610	(1)	609
Charge-offs	(967)	(29)	(385)	(1,381)	-	(1,381)
Collection of debts written off in previous years	439	-	275	714	-	714
Net charge-offs	(528)	(29)	(110)	(667)	-	(667)
Adjustments from translation of Financial Statements	(16)	-	-	(16)	-	(16)
Disposal of an investment in a previously-consolidated subsidiary	(20)	(5)	(1)	(26)	-	(26)
Balance of loan loss provision as at year end[1]	2,590	467	657	3,714	2	3,716
[1]Of which: in respect of off-balance-sheet credit instruments	366	-	20	386	-	386

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[a] and Off-Balance-Sheet Credit Instruments (cont.)

2. Additional information on calculating the loan loss provision for debts[a] and for the debts for which it was calculated[a]

	December 31 2021					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debt:[a]						
Examined on a specific basis	172,551	-	914	173,465	15,554	189,019
Examined on a collective basis[1]	43,157	103,688	27,081	173,926	1,708	175,634
[1]Of which: The provision for which was calculated by extent of arrears	466[c]	103,610	-	104,076	-	104,076
Total debts[a]	215,708	103,688	27,995	347,391	17,262	364,653
Loan loss provision for debts:[a]						
Examined on a specific basis	2,641	-	295	2,936	3	2,939
Examined on a collective basis[2]	671	489	416	1,576	-	1,576
[2]Of which: The provision for which was calculated by extent of arrears	1	489[b]	-	490	-	490
Total loan loss provision	3,312	489	711	4,512	3	4,515
Of which: For impaired debts	703	5	234	942	-[d]	942

	December 31 2020					
	Loans to the public					
	Middle-market	Housing	Private individuals - other	Total - public	Banks and govern-ments	Total
	In NIS millions					
Recorded outstanding debt:[a]						
Examined on a specific basis	143,317	24	786	144,127	10,879	155,006
Examined on a collective basis[1]	40,741	90,365	25,398	156,504	158	156,662
[1]Of which: The provision for which was calculated by extent of arrears	624[c]	90,237	-	90,861	-	90,861
Total debts[a]	184,058	90,389	26,184	300,631	11,037	311,668
Loan loss provision for debts:[a]						
Examined on a specific basis	3,135[e]	1	228	3,364	3	3,367
Examined on a collective basis[2]	747[e]	635	544	1,926	-	1,926
[2]Of which: The provision for which was calculated by extent of arrears	-[d]	634[b]	-	634	-	634
Total loan loss provision	3,882	636	772	5,290	3	5,293
Of which: For impaired debts	911[e]	7	212	1,130	-[d]	1,130

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Including an outstanding collective provision that exceeds the amount required under the extent of arrears method, in the amount of NIS 360 million (2020 - NIS 460 million).
(c) Outstanding housing loans extended to certain purchasing groups currently in the process of construction.
(d) Balance of less than NIS 1 million.
(e) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)]

1. Credit quality and delinquency

	December 31 2021					
		Troubled debts[(b)]			Unimpaired debts - additional information	
	Non-troubled	Unimpaired	Impaired[(c)]	Total	In arrears of 90 days or more[(d)(h)]	In arrears of 30 days to 89 days[(e)]
	In NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction[(g)]	41,063	81	81	41,225	6	57
Construction & real estate - real estate activities[(g)]	34,622	85	210	34,917	36	34
Financial services	23,515	15	4	23,534	2	16
Commercial - other	78,204	1,222	1,097	80,523	36	103
Commercial - total	177,404	1,403	1,392	180,199	80	210
Private individuals - housing loans	102,969	609[(f)]	20	103,598	609	555
Private individuals - other	27,022	267	370	27,659	48	132
Total loans to the public - activity in Israel	307,395	2,279	1,782	311,456	737	897
Banks in Israel	1,098	-	-	1,098	-	-
Government of Israel	205	-	-	205	-	-
Total activity in Israel	308,698	2,279	1,782	312,759	737	897
Borrower activity outside Israel						
Public - commercial						
Construction & real estate[(g)]	13,872	333	208	14,413	7	178
Commercial - other	19,258	880	958	21,096	197	338
Commercial - total	33,130	1,213	1,166	35,509	204	516
Private individuals	425	-	1	426	-	-
Total loans to the public - foreign activity	33,555	1,213	1,167	35,935	204	516
Foreign banks	15,224	-	-	15,224	-	-
Foreign governments	735	-	-[(i)]	735	-	-
Total activity outside Israel	49,514	1,213	1,167	51,894	204	516
Total - public	340,950	3,492	2,949	347,391	941	1,413
Total - banks	16,322	-	-	16,322	-	-
Governments - total	940	-	-	940	-	-
Total	358,212	3,492	2,949	364,653	941	1,413

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

1. Credit quality and delinquency (cont.)

	December 31 2020					
		Troubled debts[(b)]			Unimpaired debts - additional information	
	Non-troubled	Unimpaired	Impaired[(c)]	Total	In arrears of 90 days or more[(d)]	In arrears of 30 days to 89 days[(e)]
	In NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	28,608	128	110	28,846	9	29
Construction & real estate - real estate activities	29,016	99	325	29,440	3	22
Financial services	19,341	7	4	19,352	1	28
Commercial - other	72,133	1,634	1,594	75,361	29	118
Commercial - total	149,098	1,868	2,033	152,999	42	197
Private individuals - housing loans	89,480	722[(f)]	26	90,228	720	512
Private individuals - other	25,156	304	336	25,796	38	104
Total loans to the public - activity in Israel	263,734	2,894	2,395	269,023	800	813
Banks in Israel	1,631	-	-	1,631	-	-
Government of Israel	9	-	-	9	-	-
Total activity in Israel	265,374	2,894	2,395	270,663	800	813
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	11,341	576	287	12,204	-	226
Commercial - other	16,406	1,137	1,312	18,855	14	187
Commercial - total	27,747	1,713	1,599	31,059	14	413
Private individuals	524	-	25	549	-	-
Total loans to the public - foreign activity	28,271	1,713	1,624	31,608	14	413
Foreign banks	8,774	-	-	8,774	-	-
Foreign governments	608	-	15	623	-	-
Total activity outside Israel	37,653	1,713	1,639	41,005	14	413
Total - public	292,005	4,607	4,019	300,631	814	1,226
Total - banks	10,405	-	-	10,405	-	-
Governments - total	617	-	15	632	-	-
Total	303,027	4,607	4,034	311,668	814	1,226

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

1. Credit quality and delinquency (cont.)

Comments:

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) Credit risk that is impaired, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans in arrears of 90 days or more for which there is no provision based on the extent of arrears.

(c) As a rule, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured as part of troubled debt restructuring, please see Note 30B.2.C. below.

(d) Classified as unimpaired troubled debts. Accrual debt.

(e) Accrual debt. Debts in arrears of 30 to 89 days totaling NIS 562 million (December 31 2020 - NIS 472 million) were classified as unimpaired troubled debt.

(f) Including outstanding housing loans in the amount of NIS 67 million (December 31 2020 - NIS 78 million) with a provision for the extent of arrears, for which an agreement was signed for the borrower to repay the overdue balance, which involves changes in the repayment schedule of outstanding future payments.

(g) 3.3 percent of the credit granted for income-generating properties through the Bank's Construction and Real Estate Department requires LTV rates in excess of 85 percent.

(h) Outstanding unimpaired debts in arrears of at least 90 days as at December 31 2021, in the amount of NIS 737 million constitutes credit granted by the Bank, of which NIS 128 million is for non-housing loans and NIS 609 million - for housing loans, of which a total of NIS 177 million is in arrears of up to 149 days, NIS 129 million is in arrears of 150-249 days and the remaining debt is in arrears of 250 days or more.

(i) Balance of less than NIS 1 million.

Credit quality - debt delinquency status

Regularly monitored, the extent of arrears constitutes one of the main indications for credit quality. The extent of arrears is determined according to the actual number of arrears days.

Debt evaluated on a specific basis is treated as non-performing (non-accrual) after 90 days of arrears. For debts evaluated on a collective basis, the extent of arrears affects the debt classification (the greater the extent of arrears - the more severe the debt classification); after 150 days of arrears, the Bank performs an charge-off of the debt. Any debt restructured as troubled debt and which is once again accruing interest but is in arrears of 60 days under the new repayment terms, shall be treated once again as non-performing and be charged off. For housing loans, except loans without quarterly or monthly repayments, the Bank sets a provision using the extent of arrears method.

It should be noted that in light of the Bank of Israel's guidance of April 21 2020, and as part of the efforts to assist borrowers in financial difficulties due to the coronavirus crisis, debt arrangements until December 31 2021, under which the terms and conditions of the debt were changed, and specifically - the original repayment dates were deferred, were not taken into consideration in determining the arrears status or debt classification.

For more information on the Banking Supervision Department's guidance in the context of dealing with the coronavirus, please see Note 1.W.5 to the 2020 Annual Financial Statements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a]

2. Additional information on impaired debts

A. Impaired debts and specific provision

	December 31 2021				
	Outstanding[b] impaired debts in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of impaired debts in respect of which there is no specific provision[c]	Total outstanding balance[b] of impaired debts	Outstanding contractual principal in respect of impaired debts
	In NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - construction	67	25	14	81	330
Construction & real estate - real estate activities	149	14	61	210	930
Financial services	3	-	1	4	397
Commercial - other	875	332	222	1,097	2,684
Commercial - total	**1,094**	**371**	**298**	**1,392**	**4,341**
Private individuals - housing loans	-	-	20	20	20
Private individuals - other	368	234	2	370	885
Total loans to the public - activity in Israel	**1,462**	**605**	**320**	**1,782**	**5,246**
Borrower activity outside Israel					
Public - commercial					
Construction and real estate	208	96	-	208	302
Commercial - other	957	236	1	958	1,025
Commercial - total	**1,165**	**332**	**1**	**1,166**	**1,327**
Private individuals	-	-	1	1	1
Total loans to the public - foreign activity	**1,165**	**332**	**2**	**1,167**	**1,328**
Foreign governments	-[d]	-[d]	-	-	-
Total activity outside Israel	**1,165**	**332**	**2**	**1,167**	**1,328**
Total - public	**2,627**	**937**	**322**	**2,949**	**6,574**
Governments - total	-	-	-	-	-
Total	**2,627**	**937**	**322**	**2,949**	**6,574**
Of which:					
Measured according to the present value of cash flows	**2,126**	**775**	**259**	**2,385**	
Restructured troubled debts	**2,087**	**645**	**182**	**2,269**	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) Balance of less than NIS 1 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

A. Impaired debts and specific provision (cont.)

	December 31 2020				
	Outstanding[b] impaired debts in respect of which there is a specific provision[c]	Balance of specific provision[c]	Outstanding balance[b] of impaired debts in respect of which there is no specific provision[c]	Total outstanding balance[b] of impaired debts	Outstanding contractual principal in respect of impaired debts
	In NIS millions				
Borrower activity in Israel					
Public - commercial					
Construction & real estate - construction	47	14	63	110	357
Construction & real estate - real estate activities	195	21	130	325	1,086
Financial services	1	1	3	4	403
Commercial - other	1,107	428	487	1,594	3,431
Commercial - total	1,350	464	683	2,033	5,277
Private individuals - housing loans	-	-	26	26	26
Private individuals - other	334	212	2	336	834
Total loans to the public - activity in Israel	1,684	676	711	2,395	6,137
Borrower activity outside Israel					
Public - commercial					
Construction and real estate	287	94[e]	-	287	358
Commercial - other	1,267	353[e]	45	1,312	1,357
Commercial - total	1,554	447	45	1,599	1,715
Private individuals	24	1	1	25	25
Total loans to the public - foreign activity	1,578	448	46	1,624	1,740
Foreign governments	15	-[d]	-	15	15
Total activity outside Israel	1,593	448	46	1,639	1,755
Total - public	3,262	1,124	757	4,019	7,877
Governments - total	15	-	-	15	15
Total	3,277	1,124	757	4,034	7,892
Of which:					
Measured according to the present value of cash flows	2,675	947	594	3,269	
Restructured troubled debts	2,148	589	493	2,641	

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Specific loan loss provision.
(d) Balance of less than NIS 1 million.
(e) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

B. Average balance and interest income

	For the year ended December 31					
	2021			2020		
	Average outstanding[b] impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis	Average outstanding[b] impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	83	2	1	103	1	-
Construction & real estate - real estate activities	265	1	1	242	4	1
Financial services	5	-	-	5	-	-
Commercial - other	1,362	9	1	1,284	8	2
Commercial - total	**1,715**	**12**	**3**	1,634	13	3
Private individuals - housing loans	21	-	-	9	-	-
Private individuals - other	353	7	-	317	5	-
Total loans to the public - activity in Israel	**2,089**	**19**	**3**	1,960	18	3
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	236	-	-	313	-	-
Commercial - other	977	4	3	511	40	2
Commercial - total	**1,213**	**4**	**3**	824	40	2
Private individuals	1	-	-	29	-	-
Total loans to the public - foreign activity	**1,214**	**4**	**3**	853	40	2
Foreign governments	6	-	-	11	-	-
Total activity outside Israel	**1,220**	**4**	**3**	864	40	2
Total - public	**3,303**	**23**	**6**	2,813	58	5
Governments - total	**6**	**-**	**-**	11	-	-
Total	**3,309**	**23[d]**	**6**	2,824	58[d]	5

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding debts of impaired debts in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired debts during the period in which the debts were classified as impaired.
(d) Were the impaired debts to accrue interest according to the original terms and conditions, interest income would be in the amount of NIS 488 million (2020 - NIS 410 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

B. Average balance and interest income (cont.)

	For the year ended December 31 2019		
	Average outstanding[b] impaired debts	Recorded interest income[c]	Of which: Recorded on a cash basis
	In NIS millions		
Borrower activity in Israel			
Public - commercial			
Construction & real estate - construction	140	1	-
Construction & real estate - real estate activities	305	5	3
Financial services	7	-	-
Commercial - other	1,152	10	5
Commercial - total	1,604	16	8
Private individuals - other	317	2	-
Total loans to the public - activity in Israel	1,921	18	8
Borrower activity outside Israel			
Public - commercial			
Construction and real estate	153	3	-
Commercial - other	380	5	5
Commercial - total	533	8	5
Private individuals	9	-	-
Total loans to the public - foreign activity	542	8	5
Total - public	2,463	26[d]	13

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded average outstanding debts of impaired debts in the reporting period.
(c) Interest income recorded for the reporting period in respect of the average outstanding impaired debts during the period in which the debts were classified as impaired.
(d) Were the impaired debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 402 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Restructured troubled debts

	For the year ended December 31							
	2021				2020			
	Non-accrual debt	Accrual, in arrears of 30 days to 89 days[b]	Accrual loan,[b] non delin-quent	Total[c]	Non-accrual debt	Accrual, in arrears of 30 days to 89 days[b]	Accrual loan,[b] non delin-quent	Total[c]
	In NIS millions							
Borrower activity in Israel								
Public - commercial								
Construction & real estate - construction	28	1	16	45	72	1	14	87
Construction & real estate - real estate activities	157	1	9	167	192	-	67	259
Financial services	2	-	1	3	1	-	1	2
Commercial - other	721	6	156	883	562	8	325	895
Commercial - total	908	8	182	1,098	827	9	407	1,243
Private individuals - other	185	5	161	351	187	4	126	317
Total loans to the public - activity in Israel	1,093	13	343	1,449	1,014	13	533	1,560
Borrower activity outside Israel								
Public - commercial								
Construction and real estate	7	-	-	7	17	-	-	17
Commercial - other	813	-	-	813	1,060	-	4	1,064
Commercial - total	820	-	-	820	1,077	-	4	1,081
Total loans to the public - foreign activity	820	-	-	820	1,077	-	4	1,081
Total - public	1,913	13	343	2,269	2,091	13	537	2,641

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Accrual debt.
(c) Included in impaired debts.

There were no commitments for granting additional loans to borrowers for whom troubled debts were restructured and in which the credit terms were amended as at December 31 2021 (as at December 31 2020 - NIS 20 million).

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Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Restructured troubled debts (cont.)

1. Restructurings carried out

	For the year ended December 31					
	2021			2020		
	No. of contracts	Recorded outstan-ding debt before restruc-turing	Recorded outstan-ding debt after restruc-turing	No. of contracts	Recorded outstan-ding debt before restruc-turing	Recorded outstan-ding debt after restruc-turing
		In NIS millions			In NIS millions	
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	181	34	33	348	74	73
Construction & real estate - real estate activities	40	27	26	104	158	158
Financial services	23	2	2	12	1	1
Commercial - other	1,082	546	543	2,067	851	847
Commercial - total	1,326	609	604	2,531	1,084	1,079
Private individuals - other	4,779	243	240	6,092	217	214
Total loans to the public - activity in Israel	6,105	852	844	8,623	1,301	1,293
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	-	-	-	2	61	61
Commercial - other	1	10	10	8	1,039	1,039
Commercial - total	1	10	10	10	1,100	1,100
Total loans to the public - foreign activity	1	10	10	10	1,100	1,100
Total - public	6,106	862	854	8,633	2,401	2,393

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Restructured troubled debts (cont.)

1. Restructurings carried out (cont.)

	For the year ended December 31 2019		
	No. of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
		In NIS millions	
Borrower activity in Israel			
Public - commercial			
Construction & real estate - construction	344	41	40
Construction & real estate - real estate activities	89	26	26
Financial services	22	2	2
Commercial - other	1,690	234	230
Commercial - total	2,145	303	298
Private individuals - other	5,317	171	168
Total loans to the public - activity in Israel	7,462	474	466
Borrower activity outside Israel			
Public - commercial			
Construction and real estate	2	12	12
Commercial - total	2	12	12
Total loans to the public - foreign activity	2	12	12
Total - public	7,464	486	478

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[a] (cont.)

2. Additional information on impaired debts (cont.)

C. Restructured troubled debts (cont.)

2. Failed restructurings[b]

	December 31					
	2021		2020		2019	
	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]	No. of contracts	Recorded outstanding debt[c]
		In NIS millions		In NIS millions		In NIS millions
Borrower activity in Israel						
Public - commercial						
Construction & real estate - construction	**121**	**12**	144	15	176	22
Construction & real estate - real estate activities	**28**	**11**	46	15	40	15
Financial services	**5**	-[d]	7	1	12	1
Commercial - other	**735**	**98**	810	108	733	104
Commercial - total	**889**	**121**	1,007	139	961	142
Private individuals - other	**2,035**	**66**	1,850	54	1,888	58
Total loans to the public - activity in Israel	**2,924**	**187**	2,857	193	2,849	200
Borrower activity outside Israel						
Public - commercial						
Construction and real estate	**1**	-[d]	1	-[d]	1	-[d]
Commercial - other	**-**	**-**	-	-	1	-[d]
Commercial - total	**1**	**-**	1	-	2	-
Total public - foreign operations	**1**	**-**	1	-	2	-
Total - public	**2,925**	**187**	2,858	193	2,851	200

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Debts which were in arrears of at least 30 days during the reporting year, which were restructured as part of the restructuring of troubled debt during the 12 months preceding the date on which they became delinquent.
(c) The outstanding debt recorded as at the end of the quarter in which the failure occurred.
(d) Balance of less than NIS 1 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Debts[(a)] (cont.)

3. Additional information on housing loans

C. Restructured troubled debts (cont.)

Outstanding end of period loan-to-value (LTV),[(b)] type of repayment and interest

		December 31 2021			
		Outstanding housing loans			
		Total[1]	[1]Of which: bullet and balloon loans	[1]Of which: variable interest	Total off-balance-sheet credit risk
		In NIS millions			
First pledge: LTV ratio	Up to 60%	**64,176**	**1,500**	**40,492**	**1,815**
	More than 60%	**39,506**	**753**	**24,946**	**1,911**
Unpledged secondary lien		**6**	**-**	**5**	**-**
Total		**103,688**	**2,253**	**65,443**	**3,726**

		December 31 2020			
		Outstanding housing loans			
		Total[1]	[1]Of which: bullet and balloon loans	[1]Of which: variable interest	Total off-balance-sheet credit risk
		In NIS millions			
First pledge: LTV ratio	Up to 60%	58,016	1,525	36,610	1,612[(c)]
	More than 60%	32,366	611	20,923	1,615[(c)]
Unpledged secondary lien		7	-	4	-
Total		90,389	2,136	57,537	3,227

(a) Loans to the public, loans to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(b) The ratio between the approved credit facility on the date granted and the value of the asset, as approved by the Bank when granting the credit facility. The LTV ratio provides an additional indication of the Bank's risk assessment of a customer on granting a credit facility. Each quarter, as required under the Bank of Israel's directives, the minimum 0.35 percent collective provision is examined against the 0.75 percent provision required for loans with an LTV ratio of more than 60 percent. Note that the collective provision is higher than the one required for the LTV ratio.

(c) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Loans to the Public and off-Balance Sheet Credit Risk by Borrower's Loan Amount

		December 31 2021		
Maximum credit		Number of borrowers[c]	Loans[a]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	534,417	749	1,641
10	20	204,036	1,156	1,936
20	40	195,324	2,702	3,082
40	80	176,150	6,236	3,835
80	150	124,682	10,981	2,689
150	300	95,023	17,511	2,376
300	600	68,648	27,302	2,234
600	1,200	63,235	49,977	3,959
1,200	2,000	21,057	28,218	3,157
2,000	4,000	7,643	17,821	2,782
4,000	8,000	2,729	12,816	2,799
8,000	20,000	2,224	23,104	5,474
20,000	40,000	1,045	23,944	6,087
40,000	200,000	1,025	61,987	23,691
200,000	400,000	139	23,840	14,549
400,000	800,000	62	18,003	15,066
800,000	1,200,000	18	9,227	9,088
1,200,000	1,600,000	7	6,642	2,862
1,600,000	2,000,000	3	1,693	3,318
2,000,000	2,400,000	5	5,553	5,657
2,400,000	2,800,000	3	3,312	4,538
2,800,000	3,131,858	2	2,295	3,638
Total		1,497,477	355,069	124,458

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Loans to the public and off-balance sheet credit risk by borrower's loan amount (cont.)

Maximum credit		December 31 2020		
		Number of borrowers[c]	Loans[a]	Off-balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS millions	
From	To			
0	10	468,323	554	1,315
10	20	176,894	976	1,772
20	40	196,016	2,484	3,437
40	80	203,842	6,109	5,656
80	150	145,800	10,863	5,127
150	300	100,369	17,058	3,856
300	600	69,205	26,617	3,095
600	1,200	58,671	45,179	4,471
1,200	2,000	17,302	22,735	3,027
2,000	4,000	6,345	14,528	2,620
4,000	8,000	2,556	11,519	2,789
8,000	20,000	1,984	20,547	4,892
20,000	40,000	937	21,205	5,927
40,000	200,000	903	55,753	20,585
200,000	400,000	108	19,705	10,044
400,000	800,000	44	11,184	10,763
800,000	1,200,000	17	8,462	7,264
1,200,000	1,600,000	5	1,966	4,993
1,600,000	2,000,000	5	5,047	3,309
2,000,000	2,400,000	2	1,641	2,743
2,400,000	2,670,975	2	2,717	2,419
Total		1,449,330	306,849	110,104

(a) Before the effect of loan loss provision and the effect of collateral that are deductible for the purpose of a borrower' or borrower group's indebtedness. Balance sheet loans – with the addition of fair value of derivatives totaling NIS 7,678 million.
(b) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Number of borrowers according to total off-balance sheet loans and credit risk.

Comments:
Starting with loans of up to NIS 8,000 thousand, loans are classified by the specific consolidation method; loans to other borrowers were classified by the category consolidation method.
The definition of "borrower" and the definition of "indebtedness", including off-balance sheet credit risk, are in accordance with the Banking Supervision Department's directives regarding the amendment of Proper Conduct of Banking Business Directive No. 313 – "Limitations on the indebtedness of a borrower and a group of borrowers".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

D. Off Balance-Sheet Financial Instruments

	December 31			
	2021		2020	
	Outstanding loan contracts[(a)]	Balance of loan loss provision	Outstanding loan contracts[(a)]	Balance of loan loss provision
	In NIS millions			
a. Off-balance sheet financial instruments - Contractual balances or notional amounts as of year-end. Transactions in which the balance reflects credit risk:				
Documentary credit	1,640	3	1,070	3
Loan guarantees	6,048	83	5,254	68
Guarantees for apartment buyers	28,061	29	20,141	18
Guarantees and other commitments[(b)]	19,086	148	17,171	172
Unutilized credit card credit facilities	8,001	7	15,670	15
Unutilized current loan account facilities and other credit facilities in demand accounts	13,643	27	12,841	28
Irrevocable loan commitments approved but not yet granted	43,332	152	32,567	98
Commitments to issue guarantees	18,579	20	20,460	20
Unutilized credit facilities for derivatives activity	2,912	-	3,083	-
Approval in principle to maintain interest rate[(c)]	8,397	-	7,175	-

(a) The balance of the contracts or their par value as at the end of the year, before the effect of the loan loss provision.
(b) Including the Bank's liabilities for its share in the risk reserve of the TASE and the MAOF Clearing House in the amount of NIS 498 million (as at December 31 2020, NIS 421 million).
(c) Liabilities to extend credit to customers in the framework of "Authorization in principle and preserving the interest rate" to Proper Conduct of Banking Business Directive No. 451, "Procedures for Extending Housing Loans".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

E. Guarantees by repayment date

	As at December 31 2021				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	3,504	1,848	174	522	6,048
Guarantees for apartment buyers	-	28,061	-	-	28,061
Guarantees and other commitments	9,918	6,197	1,544	1,427	19,086
Total guarantees	13,422	36,106	1,718	1,949	53,195

	As at December 31 2020				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS millions				
Loan guarantees	3,590	1,225	153	286	5,254
Guarantees for apartment buyers	-	20,141	-	-	20,141
Guarantees and other commitments	10,198	4,929	957	1,087	17,171
Total guarantees	13,788	26,295	1,110	1,373	42,566

The following collateral information reflects collateral the Bank has received specifically against guarantees:
The cash balance available to the Bank to cover for losses realized under these guarantees and indemnities totaled NIS 304 million (as at December 31 2020 - NIS 347 million). In addition, the balance of securities and other tradable assets held as collateral, totaled NIS 9 million (as of December 31 2020 - NIS 11 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

F. Sale and purchase of loans to the public

Credit risk from sold loans to the public

	For the year ended December 31									
	2021					2020				
	Sold loans to the public	Sold off-balance sheet credit risk[(a)]	Of which: Troubled credit risk	Total gain (loss) for sold loans to the public	Total year-end out-standing loans sold, for which the Bank provides services	Sold loans to the public	Sold off-balance sheet credit risk	Of which: Trou-bled credit risk	Total gain (loss) for sold loans to the public	Total year-end out-standing loans sold, for which the Bank pro-vides services
	In NIS millions									
Commercial - total	**217**	**-**	**-**	**-**	**769**	-	175	-	-	1,268
Private individuals - housing loans	**-**	**-**	**-**	**-**	**755**	-	-	-	-	898
Private individuals - other	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total risk for loans to the public	**217**	**-**	**-**	**-**	**1,524**	-	175	-	-	2,166

Purchased credit risk from loans to the public

	For the year ended December 31					
	2021			2020		
	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: Troubled credit risk	Loans to the public purchased in the reporting period	Purchased off-balance sheet credit risk	Of which: Troubled credit risk
	In NIS millions					
Commercial - total	**11,926**	**20**	**-**	8,957	-	-
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**110**	**-**	**-**	61	-	-
Total credit risk arising from loans to the public	**12,036**	**20**	**-**	9,018	-	-

(a) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivatives.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

G. Syndications and Participation in Loan Syndications

	December 31 2021					
	Syndication transactions organized by the Bank[a]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off-balance sheet credit risk[b]	Loans to the public	Off-balance-sheet credit risk[b]	Loans to the public	Off-balance sheet credit risk[b]
	In NIS millions					
Commercial - total	4,434	3,162	8,153	4,919	19,040	1,391
Private individuals - housing loans	2,082	128	2,096	128	56	-
Private individuals - other	1	-	1	-	244	-
Total credit risk arising from loans to the public	6,517	3,290	10,250	5,047	19,340	1,391

	December 31 2020					
	Syndication transactions organized by the Bank[a]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off-balance sheet credit risk[b]	Loans to the public	Off-balance sheet credit risk[b]	Loans to the public	Off-balance sheet credit risk[b]
	In NIS millions					
Commercial - total	4,280	2,464	8,513	4,743	17,859	1,281
Private individuals - housing loans	2,505	166	2,522	166	91	-
Private individuals - other	1	-	1	-	289	-
Total credit risk arising from loans to the public	6,786	2,630	11,036	4,909	18,239	1,281

(a) Including where the banking corporation provides a material service in the syndication transaction.
(b) Credit risk arising from off-balance sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivatives.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31 2021						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In US dollars	In EUR	In other currencies		
	In NIS millions						
Assets							
Cash and deposits with banks	176,335	-	14,955	886	4,078	1,148	197,402
Securities	18,954	5,729	49,865	2,612	5,408	4,359	86,927
Securities borrowed or purchased under reverse repurchase agreements	1,599	-	832	16	-	-	2,447
Loans to the public, net[c]	247,894	48,052	35,832	2,863	6,458	1,780	342,879
Loans to the Israeli Government	9	196	468	267	-	-	940
Investments in associates	-	-	-	-	-	1,113	1,113
Buildings and equipment	-	-	-	-	-	2,720	2,720
Assets in respect of derivatives	4,543	162	3,169	63	126	5,964	14,027
Goodwill	-	-	-	-	-	14	14
Other assets	6,107	5	787	13	30	1,043	7,985
Total assets	455,441	54,144	105,908	6,720	16,100	18,141	656,454
Liabilities							
Deposits by the public	360,890	10,650	147,260	9,843	5,690	2,936	537,269
Deposits by banks	18,327	-	5,556	1,376	106	5	25,370
Deposits by the Israeli Government	223	-	69	8	-	-	300
Securities loaned or sold under repurchase agreements	1,024	-	1,258	-	-	-	2,282
Bonds, promissory notes and subordinated bonds	2,877	10,187	2,364	-	-	-	15,428
Liabilities for derivatives	6,363	456	2,449	92	241	5,950	15,551
Other liabilities	4,536	12,385	707	51	116	407	18,202
Total liabilities	394,240	33,678	159,663	11,370	6,153	9,298	614,402
Difference[d]	61,201	20,466	(53,755)	(4,650)	9,947	8,843	42,052
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(41,395)	(4,190)	51,145	4,988	(10,422)	(126)	-
In the money options, net (according to underlying asset)	790	-	(135)	(448)	(109)	(98)	-
Out of the money options, net (according to underlying asset)	(1,017)	-	1,410	(11)	(13)	(369)	-
Grand total	19,579	16,276	(1,335)	(121)	(597)	8,250	42,052
In the money options, net (discounted nominal value)	423	-	422	(517)	(172)	(156)	-
Out of the money options, net (discounted nominal value)	(104)	-	954	41	42	(933)	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 4,512 million.
(d) Shareholders' equity including non-controlling interests.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31 2020						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In US dollars	In EUR	In other currencies		
	In NIS millions						
Assets							
Cash and deposits with banks	126,474	-	5,416	1,457	1,999	848	136,194
Securities	30,706	5,194	42,965	3,895	5,141	4,396	92,297
Securities borrowed or purchased under reverse repurchase agreements	584	-	1,554	1	880	-	3,019
Loans to the public, net[c]	211,311	43,202	31,124	3,377	5,403	924	295,341
Loans to the Israeli Government	9	-	613	10	-	-	632
Investments in associates	-	-	-	-	-	795	795
Buildings and equipment	-	-	-	-	-	2,932	2,932
Assets in respect of derivatives	6,008	12	3,004	807	464	4,957	15,252
Goodwill	-	-	-	-	-	15	15
Other assets	7,419	4	916	1	39	1,179	9,558
Total assets	382,511	48,412	85,592	9,548	13,926	16,046	556,035
Liabilities							
Deposits by the public	310,835	10,925	108,671	9,256	5,668	1,676	447,031
Deposits by banks	10,607	-	3,710	642	71	113	15,143
Deposits by the Israeli Government	115	-	84	9	-	-	208
Securities loaned or sold under repurchase agreements	354	-	251	-	-	-	605
Bonds, promissory notes and subordinated bonds	4,614	9,244	2,445	-	-	-	16,303
Liabilities for derivatives	7,006	178	3,172	1,159	892	4,908	17,315
Other liabilities	7,746	12,269	787	20	166	347	21,335
Total liabilities	341,277	32,616	119,120	11,086	6,797	7,044	517,940
Difference[d]	41,234	15,796	(33,528)	(1,538)	7,129	9,002	38,095
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(25,547)	(701)	32,704	1,052	(7,990)	482	-
In the money options, net (according to underlying asset)	658	-	(959)	236	65	-	-
Out of the money options, net (according to underlying asset)	(89)	-	(44)	102	19	12	-
Grand total	16,256	15,095	(1,827)	(148)	(777)	9,496	38,095
In the money options, net (discounted nominal value)	773	-	(1,109)	252	84	-	-
Out of the money options, net (discounted nominal value)	(756)	-	181	419	(82)	238	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 5,290 million.
(d) Shareholders' equity including non-controlling interests.

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)]

	December 31 2021			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	Over one year and up to two years
	In NIS millions			
NIS (including foreign currency-linked):				
Assets[1]	232,189	25,849	45,352	36,010
Liabilities[2]	318,715	25,245	30,044	18,150
Difference	(86,526)	604	15,308	17,860
[1]Of which: Loans to the public	52,763	24,833	42,267	32,249
[2]Of which: Deposits by the public	312,345	23,232	27,074	3,992
Derivatives (excluding options)	(24,938)	(2,060)	(17,332)	(1,596)
Options (by underlying asset)	53	(191)	(156)	24
Difference after effect of derivatives	(111,411)	(1,647)	(2,180)	16,288
Foreign currency[(c)]				
Assets[1]	40,222	9,547	27,162	11,047
Liabilities[2]	127,389	18,445	16,865	1,818
Difference	(87,167)	(8,898)	10,297	9,229
[1]Of which: Loans to the public	14,511	4,104	7,690	5,010
[2]Of which: Deposits by the public	117,585	15,561	13,305	1,165
Of which: Difference in dollars	(73,735)	(8,261)	11,159	8,303
Of which: Difference in respect of foreign activity	(4,530)	1,248	3,329	3,255
Derivatives (excluding options)	24,938	2,060	17,332	1,596
Options (by underlying asset)	(53)	191	156	(24)
Difference after effect of derivatives	(62,282)	(6,647)	27,785	10,801
Total				
Assets[1]	272,411	35,396	72,514	47,057
Liabilities[2]	446,104	43,690	46,909	19,968
Difference[(g)]	(173,693)	(8,294)	25,605	27,089
[1]Of which: Loans to the public	67,274	28,937	49,957	37,259
[2]Of which: Deposits by the public	429,930	38,793	40,379	5,157

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of charge-offs and loan loss provision.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 458 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 10.9 billion. Loans in excess of the credit facility, totaling NIS 0.9 billion, were classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 6.7 billion.

							Book balance[d]		
Over two years and up to three years	Over three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Without term to matu-rity[b]	Total	Contrac-tual rate of return[e]
									In %
29,763	27,747	20,344	61,118	58,876	19,979	557,227	2,796	509,730	2.92
11,638	6,228	2,284	6,939	7,626	6,799	433,668	1,761	428,011	2.01
18,125	21,519	18,060	54,179	51,250	13,180	123,559	1,035	81,719	
26,405	21,654	16,880	54,298	54,197	16,702	342,248	1,315	295,945	3.20
1,544	1,275	597	1,464	597	-	372,120	-	371,574	0.67
458	(644)	557	156	(308)	-	(45,707)	-	(45,698)	
-	-	-	-	-	-	(270)	-	(268)	
18,583	20,875	18,617	54,335	50,942	13,180	77,582	1,035	35,753	
9,103	5,403	6,079	16,364	7,651	7,933	140,511	1,469	134,547	1.62
538	642	7,454	10,339	107	57	183,654	6	183,043	0.52
8,565	4,761	(1,375)	6,025	7,544	7,876	(43,143)	1,463	(48,496)	
4,327	2,433	3,446	3,439	204	423	45,587	1,464	45,154	2.23
88	318	4,912	9,905	9	-	162,848	-	162,759	0.14
5,991	4,011	(2,665)	4,614	6,817	7,797	(35,969)	1,262	(43,950)	
3,336	2,267	(1,531)	(5,402)	1,802	2,740	6,514	68	6,202	
(458)	644	(557)	(156)	308	-	45,707	-	45,698	
-	-	-	-	-	-	270	-	268	
8,107	5,405	(1,932)	5,869	7,852	7,876	2,834	1,463	(2,530)	
38,866	33,150	26,423	77,482	66,527	27,912	697,738	4,265	644,277	2.65
12,176	6,870	9,738	17,278	7,733	6,856	617,322	1,767	611,054	1.56
26,690	26,280	16,685	60,204	58,794	21,056	80,416	2,498	33,223	
30,732	24,087	20,326	57,737	54,401	17,125	387,835	2,779	341,099	3.07
1,632	1,593	5,509	11,369	606	-	534,968	-	534,333	0.51

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)] (cont.)

	December 31 2020			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	Over one year and up to two years
	In NIS millions			
NIS (including foreign currency-linked):				
Assets[1]	175,498	23,167	39,140	36,393
Liabilities[2(h)]	275,933	27,503	24,362	8,858
Difference	(100,435)	(4,336)	14,778	27,535
[1]Of which: Loans to the public	47,075	20,419	32,250	30,916
[2]Of which: Deposits by the public	266,578	23,162	21,357	6,954
Derivatives (excluding options)	(8,324)	(3,844)	(13,271)	(1,068)
Options (by underlying asset)	(300)	193	688	131
Difference after effect of derivatives	(109,059)	(7,987)	2,195	26,598
Foreign currency[(c)]				
Assets[1]	22,882	10,733	27,219	13,076
Liabilities[2]	100,749	13,187	16,954	2,108
Difference	(77,867)	(2,454)	10,265	10,968
[1]Of which: Loans to the public	10,859	4,585	8,428	5,208
[2]Of which: Deposits by the public	94,555	10,211	12,909	1,085
Of which: Difference in dollars	(71,155)	(5,170)	6,288	9,533
Of which: Difference in respect of foreign activity	(11,096)	1,407	4,009	3,595
Derivatives (excluding options)	8,324	3,844	13,271	1,068
Options (by underlying asset)	300	(193)	(688)	(131)
Difference after effect of derivatives	(69,243)	1,197	22,848	11,905
Total				
Assets[1]	198,380	33,900	66,359	49,469
Liabilities[2]	376,682	40,690	41,316	10,966
Difference[(g)]	(178,302)	(6,790)	25,043	38,503
[1]Of which: Loans to the public	57,934	25,004	40,678	36,124
[2]Of which: Deposits by the public	361,133	33,373	34,266	8,039

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of charge-offs and loan loss provision.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 774 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 8.7 billion. Loans in excess of the credit facility, totaling NIS 0.8 billion, were classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.
(h) Reclassified.

Comment: Total memorandum liabilities against which short-term loans were extended by the Bank amount to NIS 6.0 billion.

							Book balance[d]		
Over two years and up to three years	More than three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Without term to maturity[b]	Total	Contractual rate of return[e]
									In %
33,695	24,057	19,753	55,439	49,571	17,668	474,381	2,783	432,080	3.02
15,345	5,378	2,952	5,006	8,087	7,928	381,352	1,828	375,661	1.39
18,350	18,679	16,801	50,433	41,484	9,740	93,029	955	56,419	
24,437	19,469	14,930	46,870	46,195	13,643	296,204	1,221	254,511	3.39
1,407	1,031	757	1,200	683	-	323,129	-	321,790	1.78
808	275	(812)	955	(286)	-	(25,567)	-	(25,805)	
1	-	-	-	-	-	713	-	713	
19,159	18,954	15,989	51,388	41,198	9,740	68,175	955	31,327	
8,660	5,485	4,711	16,524	6,719	6,859	122,868	1,242	112,866	2.42
1,523	644	505	8,139	157	80	144,046	59	140,143	2.04
7,137	4,841	4,206	8,385	6,562	6,779	(21,178)	1,183	(27,277)	
3,599	2,504	2,076	3,258	220	352	41,089	1,229	39,906	3.70
718	15	-	4,795	-	-	124,288	-	123,565	1.32
5,614	4,037	3,366	7,180	5,989	6,639	(27,679)	909	(33,231)	
2,508	1,845	2,046	(595)	799	1,822	6,340	53	4,604	
(808)	(275)	812	(955)	286	-	25,567	-	25,805	
(1)	-	-	-	-	-	(713)	-	(713)	
6,328	4,566	5,018	7,430	6,848	6,779	3,676	1,183	(2,185)	
42,355	29,542	24,464	71,963	56,290	24,527	597,249	4,025	544,946	2.90
16,868	6,022	3,457	13,145	8,244	8,008	525,398	1,887	515,804	1.57
25,487	23,520	21,007	58,818	48,046	16,519	71,851	2,138	29,142	
28,036	21,973	17,006	50,128	46,415	13,995	337,293	2,450	294,417	3.43
2,125	1,046	757	5,995	683	-	447,417	-	445,355	1.66

Note 33A – Balances and Fair Value Estimates of Financial Instruments

A. Overview

This note includes information regarding the measurement of financial instruments' fair value according to Banking Supervision Department's directives. Most of the Bank's financial instruments do not have a quoted "market price" since they are not traded in an active market. Therefore, the fair value of such instruments is measured based on the present value of the future cash flows discounted by an interest rate reflecting the interest rate of a similar transaction entered into on reporting date. The estimated fair value is calculated by estimating the future cash flows and determining a subjective discount rate. Therefore, for most financial instruments, the reported fair value estimate is not necessarily indicative of the financial instrument's realizable value on reporting date. Fair value was estimated on the basis of interest rates in effect as of reporting date and does not take into account interest rate fluctuations. If different interest rates are used, the fair value calculated may be significantly different. This mainly applies to financial instruments bearing fixed interest or non-interest bearing financial instruments. Furthermore, fees and commissions receivable or payable as a result of the business activities were not taken into account in the calculation of fair values. Moreover, the difference between the book balance and the fair value balances may not be realized since in most cases the Bank may hold the financial instrument to maturity. In view of the above, it should be emphasized that the data included in this note does not reflect the Group's value as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can potentially be applied in the measurement of fair value, one must exercise caution when comparing the fair value of different banks.

B. Principal Methods and Assumptions Used in Estimating the Fair Value of Financial Instruments

Financial assets:

Loans to the public - the fair value of the outstanding loans to the public is measured according to the present value of the future cash flows discounted at an adequate discount rate. The outstanding loans were classified into several categories according to the operating segment and the borrowers' credit rating. Future cash flows (principal and interest) were calculated for each category according to the different linkage bases. These cash flows were discounted at interest rates that reflect the risk level and average spread inherent in that loan category and the term of the loan.

This interest rate is normally determined according to the interest rate used in similar transactions as of reporting date.

The fair value of debit current account balances was estimated according to their book balances.

The fair value of impaired debts was calculated using interest rates that reflect the high level of their inherent credit risk. In any case, these interest rates reflect the highest interest rates used by the Group in transactions carried out in that same segment as of reporting date.

The fair value of current account balances classified as impaired debts was calculated according to their estimated average duration based on maximum interest rates used by the Bank.

The future cash flows in respect of impaired debts were calculated after deducting the effect of charge-offs and loan loss provisions.

Deposits with banks and loans to governments - by discounting the future cash flows at interest rates used in similar transactions entered into on reporting date.

Securities – tradable securities were measured at market value. Non-tradable securities – shares were measured at cost and bonds were measured using a model that takes into account the present value of the future cash flows discounted at an adequate discount rate, which also takes into account the probability of default and the market value.

Note 33A – Balances and Fair Value Estimates of Financial Instruments (cont.)

Financial liabilities:

Deposits by the public - the balance of the deposits was classified into a number of categories according to operating segments, linkage basis and deposits' periods to maturity. The flows of future payments (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate reflecting the average interest rate the Group pays on similar deposits of the same category for the term to maturity. The book balance of current accounts and deposits without a fixed repayment date is considered to be an estimate of their fair value.

Deposits by banks and deposits by Governments - the fair value is estimated by discounting the future cash flows at the estimated interest rates at which the Group may raise similar deposits on reporting date.

Bonds, promissory notes and subordinated bonds – at market value or by discounting the future cash flows at the interest rates at which the Group raises similar deposits, or can issued similar promissory notes on reporting date.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (cont.)

Other financial assets and liabilities:

Derivatives:

Derivatives with an active market were estimated at market value determined in the principal market. If the instrument is traded in several markets, fair value is estimated according to the most active market.

Derivatives not traded on an active market were measured using models used by the Bank in the ordinary course of business, which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

	December 31 2021				
	Book	Fair value			
	balance	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	197,402	186,207	9,986	1,214	197,407
Securities[(b)]	86,927	47,337	34,343	5,613	87,293
Securities borrowed or purchased under reverse repurchase agreements	2,447	2,447	-	-	2,447
Loans to the public, net	342,879	14,526	-	328,614	343,140
Loans to governments	940	-	10	968	978
Assets in respect of derivatives	14,027	2,673	9,299	2,055	14,027
Other financial assets	822	25	-	797	822
Total financial assets	645,444[(c)]	253,215	53,638	339,261	646,114
Financial liabilities					
Deposits by the public	537,269	16,021	413,534	105,358	534,913
Deposits by banks	25,370	3,917	4,308	17,052	25,277
Deposits from governments	300	-	188	98	286
Securities loaned or sold under repurchase agreements	2,282	2,282	-	-	2,282
Bonds, promissory notes and subordinated bonds	15,428	15,640	-	824	16,464
Liabilities for derivatives	15,551	2,672	12,498	381	15,551
Other financial liabilities	2,781	460	987	1,334	2,781
Total financial liabilities	598,981[(c)]	40,992	431,515	125,047	597,554
Off-balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	324	-	-	324	324
In addition, liabilities in respect of employee benefits, net[(d)]	12,125	-	-	12,125	12,125

(a) 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.

(b) For additional information regarding the book balance and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 157,223 million and NIS 389,669 million, respectively, the book balance of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For additional information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 33B and 33D.

(d) The liability is presented on a net basis and takes into account plan assets managed against it.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31 2020				
	Book	Fair value			
	balance	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS millions				
Financial assets					
Cash and deposits with banks	136,194	129,673[(e)]	5,019[(e)]	1,538[(e)]	136,230
Securities[(b)]	92,297	50,256	38,510	4,187	92,953
Securities borrowed or purchased under reverse repurchase agreements	3,019	3,019	-	-	3,019
Loans to the public, net	295,341	8,059[(e)]	-[(e)]	288,157[(e)]	296,216
Loans to governments	632	-	24	589	613
Assets in respect of derivatives	15,252	2,644	10,841	1,767	15,252
Other financial assets	1,950	38	-	1,912	1,950
Total financial assets	544,685[(c)]	193,689	54,394	298,150	546,233
Financial liabilities					
Deposits by the public	447,031	9,650[(e)]	332,024[(e)]	105,087[(e)]	446,761
Deposits by banks	15,143	2,612[(e)]	3,535[(e)]	8,929	15,076
Deposits from governments	208	-	94	122	216
Securities loaned or sold under repurchase agreements	605	605	-	-	605
Bonds, promissory notes and subordinated notes	16,303	16,233	-	802	17,035
Liabilities for derivatives	17,315	2,631	14,445	239	17,315
Other financial liabilities	5,746	257	4,272	1,217	5,746
Total financial liabilities	502,351[(c)]	31,988	354,370	116,396	502,754
Off-balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	301	-	-	301	301
In addition, liabilities in respect of employee benefits, net[(d)(e)]	12,221	-	-	12,221	12,221

(a) 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.

(b) For additional information regarding the book balance and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 144,975 million and NIS 309,860 million, respectively, the book balance of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For additional information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 33B and 33D.

(d) The liability is presented on a net basis and takes into account plan assets managed against it.

(e) Reclassified.

Note 33B - Items Measured at Fair Value

A. Items Measured at Fair Value on a Recurring Basis

	December 31 2021			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale bonds:				
Government of Israel bonds	18,888	4,747	31	23,666
Foreign governments' bonds	19,715	6,797	-	26,512
Bonds of Israeli financial institutions	54	-	-	54
Bonds of foreign financial institutions	-	8,270	32	8,302
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	3,382	3,793	7,175
Other Israeli bonds	418	167	-	585
Other foreign bonds	-	5,133	3	5,136
Total available-for-sale bonds	39,075	28,496	3,859	71,430
Equity securities and mutual funds not held-for-trading:				
Equity securities and mutual funds not held-for-trading	2,601	-	-	2,601
Held-for-trading securities:				
Government of Israel bonds	2,591	-	-	2,591
Bonds of Israeli financial institutions	288	-	-	288
Bonds of foreign financial institutions	-	27	-	27
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	31	11	42
Other Israeli bonds	106	-	-	106
Other foreign bonds	-	53	-	53
Held-for-trading equity securities and mutual funds	15	-	-	15
Total held-for-trading securities	3,000	111	11	3,122
Assets in respect of derivatives:				
NIS-CPI contacts	-	92	146	238
Interest rate contracts	42	2,707	124	2,873
Foreign exchange rate contracts	1	3,899	728	4,628
Stock contracts	2,077	2,523	803	5,403
Commodity- and other contracts	16	78	254	348
MAOF (Israeli financial instruments and futures) market activity	537	-	-	537
Total assets in respect of derivatives	2,673	9,299	2,055	14,027
Other:				
Credit and deposits for loaned securities	8,203	-	-	8,203
Securities borrowed or purchased under reverse repurchase agreements	2,447	-	-	2,447
Other	25	-	-	25
Total - Other	10,675	-	-	10,675
Total assets	58,024	37,906	5,925	101,855

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2021			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	257	90	347
Interest rate contracts	52	2,942	-	2,994
Foreign exchange rate contracts	-	5,650	284	5,934
Stock contracts	2,074	3,321	7	5,402
Commodity- and other contracts	9	328	-	337
MAOF (Israeli financial instruments and futures) market activity	537	-	-	537
Total liabilities in respect of derivatives	2,672	12,498	381	15,551
Other:				
Deposits by the public	8,176	6	-	8,182
Securities loaned or sold under repurchase agreements	2,282	-	-	2,282
Other	460	-	-	460
Total - Other	10,918	6	-	10,924
Total liabilities	13,590	12,504	381	26,475

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2020			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Assets				
Available-for-sale bonds:				
Government of Israel bonds	29,809	4,979	33	34,821
Foreign governments' bonds	11,046	8,847	-	19,893
Bonds of Israeli financial institutions	-	69	-	69
Bonds of foreign financial institutions	-	8,861	-	8,861
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	4,440	2,556	6,996
Other Israeli bonds	105	115	-	220
Other foreign bonds	-	6,059	8	6,067
Total available-for-sale bonds	40,960	33,370	2,597	76,927
Available-for-sale equity securities and mutual funds:				
Equity securities and mutual funds	2,769	-	-	2,769
Held-for-trading securities:				
Government of Israel bonds	3,144	-	-	3,144
Foreign governments' bonds	223	-	-	223
Bonds of Israeli financial institutions	323	-	-	323
Bonds of foreign financial institutions	-	98	-	98
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	58	22	80
Other Israeli bonds	58	-	-	58
Other foreign bonds	-	44	2	46
Held-for-trading equity securities and mutual funds	61	-	-	61
Total held-for-trading securities	3,809	200	24	4,033
Assets in respect of derivatives:				
NIS-CPI contacts	-	144	148	292
Interest rate contracts	14	4,448	439	4,901
Foreign exchange rate contracts	-	3,553	1,158	4,711
Stock contracts	2,062	2,677	18	4,757
Commodity- and other contracts	149	19	4	172
MAOF (Israeli financial instruments and futures) market activity	419	-	-	419
Total assets in respect of derivatives	2,644	10,841	1,767	15,252
Other:				
Credit and deposits for loaned securities	3,567	-	-	3,567
Securities borrowed or purchased under reverse repurchase agreements	3,019	-	-	3,019
Other	38	-	-	38
Total - Other	6,624	-	-	6,624
Total assets	56,806	44,411	4,388	105,605

Note 33B - Items Measured at Fair Value (cont.)

A. Items Measured at Fair Value on a Recurring Basis (cont.)

	December 31 2020			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS millions			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	332	63	395
Interest rate contracts	14	5,288	-	5,302
Foreign exchange rate contracts	-	6,145	176	6,321
Stock contracts	2,050	2,657	-	4,707
Commodity- and other contracts	148	23	-	171
MAOF (Israeli financial instruments and futures) market activity	419	-	-	419
Total liabilities in respect of derivatives	2,631	14,445	239	17,315
Other:				
Deposits by the public	3,474	21	-	3,495
Securities loaned or sold under repurchase agreements	605	-	-	605
Other	257	-	-	257
Total - Other	4,336	21	-	4,357
Total liabilities	6,967	14,466	239	21,672

B. Items Measured at Fair Value on a Non-Recurring Basis

	December 31 2021				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS millions				
Impaired loans whose collection is collateral-dependent	**-**	**-**	**541**	**541**	**76**
Total	**-**	**-**	**541**	**541**	**76**

	December 31 2020				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS millions				
Impaired loans whose collection is collateral-dependent	-	-	737	737	(179)
Total	-	-	737	737	(179)

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31 2021										
	Fair value as at the beginning of the year	Realized/unrealized gains (losses), net, including: In the income statement[(a)]	In other comprehensive income[(b)]	Purchases and issuances	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from level 3[(c)]	Fair value as at December 31 2021	Unrealized gains (losses) for instruments held as at December 31 2021
	In NIS millions										
Assets											
Available-for-sale bonds:											
Government of Israel	33	(2)	-	-	-	-	-	-	-	31	2
Foreign financial institutions	-	1	-	-	-	-	-	31	-	32	-
MBS/ABS	2,556	119	(37)	1,539	(80)	(1,380)	-	1,076	-	3,793	(32)
Others - abroad	8	-	-	-	-	(3)	-	-	(2)	3	-
Total available-for-sale bonds	2,597	118	(37)	1,539	(80)	(1,383)	-	1,107	(2)	3,859	(30)
held-for-trading bonds:											
MBS/ABS	22	1	-	-	-	(8)	-	-	(4)	11	-
Others - abroad	2	-	-	-	-	-	-	-	(2)	-	-
Total held-for-trading bonds	24	1	-	-	-	(8)	-	-	(6)	11	-
Assets in respect of derivatives:											
NIS-CPI contacts	148	(13)	-	-	-	-	-	11	-	146	(6)
Interest rate contracts	439	(106)	-	-	-	(209)	-	-	-	124	(309)
Foreign exchange rate contracts	1,158	(1,590)	-	1,160	-	-	-	-	-	728	499
Stock contracts	18	785	-	-	-	-	-	-	-	803	789
Commodity- and other contracts	4	250	-	-	-	-	-	-	-	254	254
Total assets in respect of derivatives	1,767	(674)	-	1,160	-	(209)	-	11	-	2,055	1,227
Total assets	4,388	(555)	(37)	2,699	(80)	(1,600)	-	1,118	(8)	5,925	1,197
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	63	(58)	-	-	-	-	-	85	-	90	18
Foreign exchange rate contracts	176	108	-	-	-	-	-	-	-	284	-
Stock contracts	-	-	7	-	-	-	-	-	-	7	-
Total liabilities in respect of derivatives	239	50	7	-	-	-	-	85	-	381	18
Total liabilities	239	50	7	-	-	-	-	85	-	381	18

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line item.
(b) Unrealized gains included in the statement of changes in equity under accumulated other comprehensive income (loss). The balance of unrealized other comprehensive income (loss) in respect of available-for-sale bonds as at December 31 2021, amounted to NIS (30) million.
(c) Transfers from Level 2 to Level 3 – forward CPI contracts for a period of more than one year were transferred when the term to maturity was less than one year.

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

	For the year ended December 31 2020										
		Realized/unrealized gains (losses), net, including:									
	Fair value as at the beginning of year	In the income statement(a)	In other comprehensive income(b)	Purchases and issuances	Sales	Discharges	Adjustments from translation of financial statements	Transfers to Level 3(c)	Transfers from Level 3(c)	Fair value as at December 31 2020	Unrealized gains (losses) for instruments held as at December 31 2020
	In NIS millions										
Assets											
Available-for-sale bonds:											
Government of Israel	-	(1)	-	-	-	-	-	34	-	33	2
Of foreign financial institutions	-	-	-	7	-	-	-	-	(7)	-	-
MBS/ABS	1,455	(39)	8	1,323	(70)	(565)	-	444	-	2,556	5
Others - abroad	-	(1)	-	-	-	-	-	9	-	8	-
Total available-for-sale bonds	1,455	(41)	8	1,330	(70)	(565)	-	487	(7)	2,597	7
Held-for-trading bonds:											
MBS/ABS	-	-	-	-	-	-	-	22	-	22	-
Others - abroad	-	-	-	-	-	-	-	2	-	2	-
Total held-for-trading bonds	-	-	-	-	-	-	-	24	-	24	-
Assets in respect of derivatives:											
NIS-CPI contacts	82	22	-	-	-	-	-	44	-	148	11
Interest rate contracts	764	(116)	-	-	-	(209)	-	-	-	439	(319)
Foreign exchange rate contracts	379	(122)	-	901	-	-	-	-	-	1,158	878
Stock contracts	8	10	-	-	-	-	-	-	-	18	12
Commodity- and other contracts	4	-	-	-	-	-	-	-	-	4	4
Total assets in respect of derivatives	1,237	(206)	-	901	-	(209)	-	44	-	1,767	586
Total assets	2,692	(247)	8	2,231	(70)	(774)	-	555	(7)	4,388	593
Liabilities											
Liabilities for derivatives:											
NIS-CPI contacts	38	(31)	-	-	-	-	-	56	-	63	-
Foreign exchange rate contracts	257	(81)	-	-	-	-	-	-	-	176	-
Total liabilities in respect of derivatives	295	(112)	-	-	-	-	-	56	-	239	-
Total - other	6	(6)	-	-	-	-	-	-	-	-	-
Total liabilities	301	(118)	-	-	-	-	-	56	-	239	-

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line item.

(b) Unrealized losses included in the statement of changes in equity under accumulated other comprehensive income (loss). The balance of unrealized other comprehensive income (loss) in respect of available-for-sale bonds as at December 31 2020, amounted to NIS 7 million.

(c) Transfers from Level 2 to Level 3 – forward CPI contracts for a period of more than one year were transferred when the term to maturity was less than one year.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3

Quantitative Information on Fair Value Measurement in Level 3

	December 31 2021				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Government of Israel bonds	31	Discounted cash flows	Spread	205 bp	205 bp
			Probability of default	1.68%	1.68%
			% of loss	25 %	25 %
Foreign financial institutions	32	Discounted cash flows	Spread	433.8 bp	433.8 bp
Asset-backed (ABS) or mortgage-backed (MBS) bonds	3,793	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30.00%	30.00%
Others - abroad	3	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30.00%	30.00%
Held-for-trading securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	11	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30.00%	30.00%
Assets for derivatives[2]					
NIS-CPI interest contracts	138	Discounted cash flows	Expected inflation	0.16%-2.60%	1.38%
	8	Discounted cash flows	Counterparty risk	0.15%-100%(*)	0.97%
Interest rate contracts	124	Discounted cash flows	Counterparty risk	0.15%-100%(*)	0.97%
Foreign exchange rate contracts	728	Discounted cash flows	Counterparty risk	0.15%-100%(*)	0.97%
Stock contracts	803	Discounted cash flows	Counterparty risk	0.15%-100%(*)	0.97%
Commodity contracts	254	Discounted cash flows	Counterparty risk	0.15%-100%(*)	0.97%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	90	Discounted cash flows	Expected inflation	0.16%-2.60%	1.38%
Foreign exchange rate contracts	284	Discounted cash flows	Expected inflation	0.16%-2.60%	1.38%
b. Items measured at fair value on a non-recurring basis					
Impaired loans whose collection is collateral-dependent	541	Collateral's fair value			

* For a defaulted counterparty.

Please see comments below.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	December 31 2020				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items measured at fair value on a recurring basis					
Assets					
Available-for-sale securities[1]					
Government of Israel bonds	33	Discounted cash flows	Spread	205 bp	205 bp
			Probability of default	1.68%	1.68%
			% of loss	25%	25%
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,556	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Others - abroad	8	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Held-for-trading securities[1]					
Asset-backed (ABS) or mortgage-backed (MBS) bonds	22	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Others - abroad	2	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	90	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
	58	Discounted cash flows	Counterparty risk	0.19%-100%(*)	1.54%
Interest rate contracts	439	Discounted cash flows	Counterparty risk	0.19%-100%(*)	1.54%
Foreign exchange rate contracts	1,158	Discounted cash flows	Counterparty risk	0.19%-100%(*)	1.54%
Stock contracts	18	Discounted cash flows	Counterparty risk	0.19%-100%(*)	1.54%
Commodity contracts	4	Discounted cash flows	Counterparty risk	0.19%-100%(*)	1.54%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	63	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
Foreign exchange rate contracts	176	Discounted cash flows	Expected inflation	0%-0.24%	0.12%
b. Items measured at fair value on a non-recurring basis					
Impaired loans whose collection is collateral-dependent	737	Collateral's fair value			

* For a defaulted counterparty.

Please see comments below.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Qualitative Information on Fair Value Measurement in Level 3

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
2. The following unobservable inputs were used to measure the derivatives' fair value: counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect the contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the CPI-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
3. The average figure for the unobservable input "counterparty risk" reflects a weighted average. The weighted average was calculated based on the relative fair value of the exposures.

Note 34 - Interested and Related Parties of the Bank and Its Consolidated Subsidiaries

Control of the Bank

Bank without a controlling core

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

A. Balances

	December 31 2021			
	Interested parties[(f)(h)]			
	Other shareholders[(j)]		Officers[(a)]	
	Balance as at December 31	Highest balance[(d)]	Balance as at December 31	Highest balance[(d)]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[(e)]	-	-	-	-
Loans to the public	13	17	6	6
Loan loss provision	-	-	-	-
Loans to the public, net	13	17	6	6
Investments in associates[(e)]	-	-	-	-
Other assets	-	-	-	-
Liabilities:				
Deposits by the public	93	219	9	15
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	-	-	-	-
Credit risk in off-balance sheet items[(g)]	4	4	2	2

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) Additional details about these items are also included in Note 12 and Note 15.
(f) As at December 31 2021, interested parties' holdings in the Bank's share capital amounted to NIS 358,972,708 par value of Bank's shares (of which officers: NIS 259,295 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives. "Other shareholders" as at December 31 2021, including through entities held by them, are The Phoenix Holdings Ltd. and Excellence Investments Ltd. (as of August 28 2019) - 7.23 percent of the Bank's equity; Harel Investments in Insurance and Financial Services Ltd. (as of March 12 2020) - 6.26 percent of equity; and Meitav Dash Investments Ltd. (as of June 4 2020) - 5.21 percent of equity, Clal Insurance Enterprises Holdings Ltd. (as of June 18 2021) - 5.97 percent of equity.

				Related parties(h)					
				Held by the Bank				Other(c)	
Other(b)		Interested parties at time of transaction		Unconsolidated subsidiaries		Associates(i)			
Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)	Balance as at December 31	Highest balance(d)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	737	737
1,692	1,692	-	348	-	-	1,362	1,381	221	298
-	-	-	-	-	-	(95)	(120)	-	-
1,692	1,692	-	348	-	-	1,267	1,261	221	298
-	-	-	-	-	-	1,113	1,117	-	-
49	49	-	2	-	-	2	2	1	5
1,216	1,281	-	173	-	-	1,036	1,036	102	626
-	-	-	-	-	-	23	34	-	-
1	1	-	-	-	-	-	-	-	-
4	5	-	1	-	-	4	4	1	3
45	271	-	23	-	-	263	277	60	99

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

A. Balances (cont.)

	December 31 2020			
	Interested parties[f][h]			
	Other shareholders[j]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS millions			
Assets:				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	228	380	5	7
Loan loss provision	-	-	-	-
Loans to the public, net	228	380	5	7
Investments in associates[e]	-	-	-	-
Other assets	5	7	-	-
Liabilities:				
Deposits by the public	193	193	16	21
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated bonds	-	-	-	-
Other liabilities	4	4	-	-
Credit risk in off-balance sheet items[g]	15	18	2	2

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Based on end-of-month balances.
(e) Additional details about these items are also included in Note 12 and Note 15.
(f) As at December 31 2020, interested parties' holdings in the Bank's share capital amounted to NIS 357,837,110 par value of Bank's shares (of which officers: NIS 773,093 par value).
(g) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(j) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives. "Other shareholders" as at December 31 2020, including through entities held by them, are Altshuler Shaham Ltd. (as of December 19 2017), which holds - to the best of the Bank's knowledge - 5.08 percent of the Bank's equity; The Phoenix Holdings Ltd. and Excellence Investments Ltd. (as of August 28 2019) - 7.32 percent of equity; Harel Investments in Insurance and Financial Services Ltd. (as of March 12 2020) - 6.52 percent of equity; and Meitav Dash Investments Ltd. (as of June 4 2020) - 5.95 percent of equity.
(k) Restated.

				Related parties[h]					
				Held by the Bank				Other[c]	
Other[b]		Interested parties at time of transaction		Unconsolidated subsidiaries		Associates[i]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	548	548
1,146	1,146	-	1	-	-	678	841	247[k]	247[k]
-	-	-	-	-	-	(50)	-	-	-
1,146	1,146	-	1	-	-	628	841	247	247
-	-	-	-	-	-	795	801	-	-
17	17	-	-	-	-	3	3	3	3
480	480	-	13	5	5	464	464	108	108
-	-	-	-	-	-	12	19	-	-
-	-	-	-	-	-	-	-	-	-
1	1	-	-	-	-	2	3	2	4
88	102	-	1	-	-	183	183	84	84

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties

	For the year ended December 31 2021					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Officers[a]	Other[b]	Unconso-lidated subsi-diaries	Associates or jointly controlled inves-tees[g]	
	In NIS millions					
Interest income, net[d]	1	-	(1)	-	20	23
Loan loss provision	-	-	-	-	(95)	-
Noninterest income (expense)	-	-	58	-	18	1
Of which: Management and service fees	-	-	2	-	3	1
Operating and other expenses[e]	-	(64)	(2)	-	(16)	(41)
Total	1	(64)	55	-	(73)	(17)

	For the year ended December 31 2020					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Officers[a]	Other[b]	Unconso-lidated subsi-diaries	Associates or jointly controlled inves-tees[g]	
	In NIS millions					
Interest income, net[d]	8	-	23	-	21	15[i]
Loan loss provision	-	-	-	-	(50)	-
Noninterest income (expense)	1	-	20	-	4	3
Of which: Management and service fees	1	-	2	-	2	1
Operating and other expenses[e]	-	(65)	(14)	-	(18)	(47)
Total	9	(65)	29	-	(43)	(29)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Additional information in Section D below.
(e) Additional information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.
(i) Restated.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties (cont.)

	For the year ended December 31 2019					
	Interested parties[f]			Related parties[f]		
				Held by the Bank		Other[c]
	Other share-holders[h]	Officers[a]	Other[b]	Unconso-lidated subsi-diaries	Associa-tes or jointly controlled inves-tees[g]	
	In NIS millions					
Interest income, net[d]	5	-	21	-	21	1
Loan loss provision	-	-	-	-	-	-
Noninterest income (expense)	-	-	-	-	3	2
Of which: Management and service fees	-	-	1	-	2	1
Operating and other expenses[e]	(4)	(79)	(25)	-	(14)	(52)
Total	1	(79)	(4)	-	10	(49)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Additional information in Section D below.
(e) Additional information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Public Reporting Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

C. Compensation and Any Other Benefits to Interested Parties

	For the year ended December 31					
	2021		2020		2019	
	Officers					
	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients
	In NIS millions		In NIS millions		In NIS millions	
Interested party employed in the corporation or on its behalf[(a)(b)(c)]	**48**	**23**	51	20	65	20
Director not employed in the corporation or on its behalf[(a)]	**7**	**11**	7	11	8	12

(a) Excluding payroll tax expenses.

(b) Of which: Short-term employee benefits NIS 35 million and post-employment benefit NIS 13 million. (2020 – short term employee benefits - 32 million, post-employment benefits - NIS 19 million, 2019 - short term employee benefits - NIS 48 million, post-employment benefits - NIS 15 million).

(c) In 2021, expenses for stock-based compensation totaled less than NIS 1 million (in 2020, expenses in respect of stock-based compensation were less than NIS 1 million, in 2019 - expenses for stock-based payments were less than NIS 1.7 million).

Bank's directors and officers are covered by a directors' and officers' liability insurance policy (D&O) taken out by the Bank. The overall insurance premium totaled NIS 8,009 thousand (2020 – NIS 5,857 thousand, 2019 – NIS 5,099 thousand).

D. Net Interest Income from Transactions of the Bank and its Consolidated Companies with Interested and Related Parties

	For the year ended December 31					
	2021		2020		2019	
	Consoli-dated	Of which: Associ-ates	Consoli-dated	Of which: Associ-ates	Consoli-dated	Of which: Associ-ates
	In NIS millions					
(a) For assets						
From loans to the public	**53**	**20**	68[(a)]	22	48	21
(b) For liabilities						
For deposits by the public	**(10)**	**-**	(1)	(1)	-	-
Total interest income, net	**43**	**20**	67	21	48	21

(a) Restated.

E. Information Relating to the Terms and Conditions of Transactions and Balances with Related Parties and Interested Parties

All transactions and balances with interested parties and related parties were carried out in the ordinary course of business and under terms and conditions similar to those of transactions with entities not related to the Bank and its consolidated subsidiaries.

Interest receivable and payable in respect of transactions with interested parties and related parties is calculated at the normal interest rates applied to transactions in the ordinary course of business with non-related parties of the Bank.

Note 35 - The Bank's Condensed Financial Statements

A. Condensed Income Statement

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Interest income	**10,582**	9,028	10,069
Interest expenses	**1,290**	1,359	2,328
Interest income, net	**9,292**	7,669	7,741
Loan loss (income) expenses	**(819)**	2,270	519
Interest income, net after loan loss expenses	**10,111**	5,399	7,222
Noninterest income			
Noninterest finance income	**992**	963	1,577[(a)]
Fees and commissions	**3,130**	2,955	2,889
Other income	**264**	17	147
Total noninterest income	**4,386**	3,935	4,613
Operating and other expenses			
Salaries and related expenses	**3,650**	3,191	3,748
Buildings and equipment - maintenance and depreciation	**1,325**	1,351	1,338
Other expenses	**1,528**	1,575	1,848
Total operating and other expenses	**6,503**	6,117	6,934
Profit before taxes	**7,994**	3,217	4,901
Provision for profit tax	**2,957**	1,281	1,712[(a)]
Profit after taxes	**5,037**	1,936	3,189
Bank's share in investees' net profits, after tax	**991**	166	333[(a)]
Net income	**6,028**	2,102	3,522

(a) For the purpose of presentation only, the Bank's gain on the sale of Leumi Card was sorted out from the Bank's share in net profits of investees after tax for noninterest finance income and provision for profit tax. For additional information, please see Note 36F to the financial statements as at December 31 2018.

Note 35 - The Bank's Condensed Financial Statements (cont.)

B. The Bank's Balance Sheet

	December 31	
	2021	2020
	In NIS millions	
Assets		
Cash and deposits with banks	**197,320**	136,572
Securities	**76,918**	83,883
Securities borrowed or purchased under reverse repurchase agreements	**2,447**	3,019
Loans to the public	**322,511**	277,550
Loan loss provision	**(4,135)**	(4,842)
Loans to the public, net	**318,376**	272,708
Loans to governments	**940**	632
Investments in investees	**11,658**	10,817
Buildings and equipment	**2,572**	2,749
Assets in respect of derivatives	**13,946**	15,086
Other assets	**6,815**	7,322
Total assets	**630,992**	532,788
Liabilities and equity		
Deposits by the public	**513,474**	425,661
Deposits by banks	**25,399**	15,077
Deposits from governments	**299**	193
Securities loaned or sold under repurchase agreements	**2,046**	354
Bonds, promissory notes and subordinated bonds	**15,428**	16,303
Liabilities for derivatives	**15,455**	17,156
Other liabilities	**17,281**	20,380
Total liabilities	**589,382**	495,124
The Bank's shareholders' equity	**41,610**	37,664
Total liabilities and equity	**630,992**	532,788

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Cash flows from operating activities			
Net income for the year	**6,028**	2,102	3,522
Adjustments:			
Bank's share in undistributed net profits of investees net of dividend received	**(990)**	48	(123)
Depreciation of buildings and equipment (including impairment)	**634**	597	516
Loan-loss expenses (income)	**(819)**	2,270	519
Gains on sale of loan portfolios	**-**	-	(15)
Net gains on sale of available-for-sale bonds	**(230)**	(362)	(171)
Net realized and unrealized (gains) losses from fair value adjustments of held-for-trading securities	**19**	(58)	(149)
Losses (gains) on sale of investees' equity	**-**	2	(73)
Losses (gains) on disposal of buildings and equipment - net	**(119)**	7	(70)
Provision for impairment of available-for-sale bonds	**-**	33	2
Realized and unrealized gains, net from fair value adjustments of equity securities not held-for-trading	**(79)**	(167)	(110)
Expenses for stock-based compensation transactions	**-**	-	2
Deferred taxes - net	**405**	(700)	(577)
Severance pay and pension – increase (decrease) in excess of provision over fund	**327**	(975)	(94)
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**367**	237	(157)
Accrual differences and rate in respect of bonds and subordinated bonds	**(41)**	(393)	(88)
Effect of exchange rate differentials on cash and cash equivalent balances	**570**	1,266	682
Other, net	**5**	-	55
<u>Net change in current assets:</u>			
Assets in respect of derivatives	**1,140**	(4,189)	1,770
Held-for-trading securities	**894**	(463)	3,315
Other Assets	**164**	(642)	425
<u>Net change in current liabilities:</u>			
Liabilities for derivatives	**(1,394)**	5,568	(756)
Other Liabilities	**(3,143)**	1,055	(2,182)
Net cash provided by operating activities	3,738	5,236	6,243

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows (cont.)

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Cash flows from investing activities			
Net change in deposits with banks with original maturities of more than three months	**(1,062)**	(268)	3,816
Net change in loans to the public	**(45,087)**	(16,376)	(9,464)
Net change in loans to the Israeli Government	**(308)**	112	38
Net change in securities loaned or sold under repurchase agreements	**572**	(1,902)	(80)
Purchase of held-to-maturity bonds	**(1,201)**	(2,340)	(1,530)
Proceeds from redemption of held-to-maturity bonds	**898**	902	487
Purchase of available-for-sale bonds and equity securities not held-for-trading	**(101,796)**	(129,536)	(83,011)
Proceeds from sale of available-for-sale bonds and equity securities not held-for-trading	**83,879**	97,147	40,182
Proceeds from redemption of available-for-sale bonds and equity securities not held-for-trading	**23,665**	30,442	30,987
Purchase of investees' shares	**(21)**	(16)	(28)
Proceeds from disposal of investment in investees	**1**	9	98
Decrease (increase), net in capital notes of investees	**-**	973	(130)
Proceeds from sale of loan portfolios	**217**	-	656
Purchase of buildings and equipment	**(517)**	(554)	(899)
Proceeds from disposal of buildings and equipment	**179**	6	107
Central severance pay fund	**(74)**	135	157
Net cash from investing activities	**(40,655)**	(21,266)	(18,614)
Cash flow from financing activities			
Net change in deposits from banks with original maturities of more than three months	**10,322**	8,962	726
Net change in deposits by the public	**87,884**	70,605	12,767
Net change in deposits by the government	**106**	9	(23)
Net change in securities loaned or sold under repurchase agreements	**1,692**	231	(198)
Proceeds from issue of bonds and subordinated bonds	**2,262**	4,986	3,152
Redemption of bonds and subordinated bonds	**(3,096)**	(8,248)	(958)
Dividend paid to shareholders	**(1,997)**	(297)	(1,387)
Share buyback	**-**	(250)	(700)
Net cash from financing activities	**97,173**	75,998	13,379
Increase (decrease) in cash and cash equivalents	**60,256**	59,968	1,008
Cash balance as at the beginning of the year	**131,567**	72,865	72,539
Effect of exchange rate fluctuations on cash and cash equivalent balances	**(570)**	(1,266)	(682)
Balance of cash and cash equivalents at the end of the year	**191,253**	131,567	72,865

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows (cont.)

Interest and taxes paid and/or received and dividends received

	For the year ended December 31		
	2021	2020	2019
	In NIS millions		
Interest received	**9,667**	9,512	9,852
Interest paid	**(1,371)**	(2,356)	(3,106)
Dividends received	**11**	222	221
Income tax paid	**(2,807)**	(1,633)	(2,190)
Income tax received	**74**	221	9

Note 36 - Other Topics and Events Subsequent to the Balance Sheet Date

A. IT and Operational Services Agreement with Union Bank of Israel Ltd.

The Bank arrived at an understanding with Union Bank of Israel Ltd. on the extension of the engagement term for IT and Operational Services Agreement (hereinafter - the "Agreement"), altering some of the terms and conditions of the engagement.

In this framework, it was agreed, inter alia, that subject to, and in accordance with the terms and conditions detailed in writing in the addendum to the Agreement (hereinafter - the "Addendum"), the validity of the Agreement will be extended until December 31 2022.

The scope of the ongoing services and the service level provided by Leumi according to the Addendum will be the same as the ongoing services and the service level which were provided to Union Bank as of December 31 2016, and Leumi will provide Union Bank with ongoing services in the Addendum term according to the "follow me" principle. In addition, an adjustment was made to the consideration paid in the framework of the agreement.

B. The effects of the coronavirus spread

In 2021, the coronavirus pandemic continued; towards the end of the year, and even more so in early 2022, the fifth surge of morbidity reached a peak, characterized by rapid and high infection rates among Israelis as well as worldwide. Central banks across the world are still using a variety of tools to support economic activity; however, only in some of these countries changes have been made, and monetary expansion is on the decline.

Towards the end of 2020, vaccinations were authorized; in some leading world countries, the vaccination process appears to be relatively successful, which has contributed to the lifting of restrictions. In other countries, the vaccination process has been relatively slow so far; as a result, these countries, especially emerging ones, still have a relatively high exposure to economic risks emanating from restrictions imposed due to high morbidity rates.

The loan loss income in 2021 totaled NIS 812 million; this income was materially affected by collections, declining morbidity rates, improvement in macroeconomic parameters and economic expansion in Israel in 2021, of which a revenue of 0.10 percent was recorded in the collective provision. The effects of the measures and aid programs approved at the beginning of the crisis are dwindling, and the Bank does not expect them to have a substantial adverse effect on the credit risk, following positive indications regarding the population segments which enjoyed these aid programs - both among households and business borrowers, such as: the high rates of borrowers who resumed their regular payments following the deferment period, the low rate of borrowers in arrears out of the borrowers who resumed payments, the high rate of borrowers given state-backed loans who have begun to repay them, the low rate of borrowers in arrears out of this population, etc.

To adequately reflect the improvement in financial data in 2021 compared with 2020, and due to the continuous nature of the crisis, the Bank continued to examine, during the fourth quarter of 2021, the key criteria for the provision-making process, and made the required revision thereto; in the process, it took into account the developments outlined above as well as the assessments whereby the risk of additional harm to the business activity as a result of the epidemiological aspect is still present but lower compared to the onset of the event; this is due to the high vaccination rates among Israel's population, the introduction of new medications to treat symptoms and mitigate severe morbidity, and the economy's adjustments to activity made during surges in morbidity. Additional changes in assessments, estimates and forecasts of management may affect the loan loss provision.

The Bank continues to examine ways to provide assistance to customers who are in temporary distress and who, according to the Bank's assessment, will overcome it. In this context, criteria for granting credit are honed, and risk focal points are monitored, on an ongoing basis, as are market developments, while preparing and adjusting the activity as needed.

Note 36 - Other Topics and Events Subsequent to the Balance Sheet Date

C. Sale of Retailors' shares

On May 13 2021, Leumi Partners Ltd. exercised an option allocated to it upon its investment in Retailors Ltd. Leumi Partners sold its shares by way of a sale offer upon Retailors' IPO. During the fourth quarter of 2021, Leumi Partners sold its remaining shares in Retailors. The pre-tax gain recorded by the Bank in 2021, in respect of its investment in Retailors amounted to NIS 313 million, including a total of NIS 181 million during the fourth quarter of 2021.

D. Sale of ironSource shares

On June 28 2021, Leumi Partners sold 1,290,230 shares of ironSource Ltd., as part of a merger between ironSource and a SPAC company, under which ironSource began trading on the NYSE. After the completion of the merger and having sold the abovementioned shares, Leumi Partners holds 0.75 percent of ironSource's shares. These shares were subject to contractual restriction provisions for a period of 6 months, which apply to ironSource's shareholders.

In December 2021, after the restriction expired, Leumi Partners sold its remaining ironSource shares.

The pre-tax gain recorded by the Bank in 2021, in respect of the sold shares and revaluation of the remaining shares amounted to NIS 205 million, including a loss of NIS 66 million during the fourth quarter of 2021.

E. Investment in Or Shay

On June 28 2021, Leumi Partners Ltd. entered into an agreement with Or Shay G.S. Ltd. (hereinafter - "Or Shay") and Or Shay's controlling shareholders (hereinafter - the "Controlling Shareholders") for the purchase of 20 percent of the shares of Or Shay, for NIS 40 million (by way of a private offering and purchase of shares from the Controlling Shareholders).

Upon signing the investment agreement, the Bank received, at no consideration, an option to purchase 55 percent of Or Shay's shares, exercisable after three to four and half years from the investment completion date, for a consideration to be determined according to a company valuation of NIS 429 million or NIS 525 million, according to the exercise date (hereinafter - the "First Option").

On the First Option date, the Bank shall have an additional option to purchase the remaining shares of the controlling shareholders (25 percent), exercisable at any time during the 18 months following the exercise of the First Option against a consideration derived from the company's valuation according to a formula set out in the agreement (hereinafter - the "Second Option").

If the Bank does not exercise the Second Option, the controlling shareholders shall have the option to sell the Bank all of their Or Shay shares for a consideration equal to 90 percent of the exercise consideration of the Second Option. This option is given for disposal for a period of 180 days, starting from the end of the second option period.

On December 2 2021, the transaction in Or Shay was completed, after all the conditions precedent have been fulfilled.

F. Resolution of a Labor Dispute

On August 1 2021, the Bank received a notice regarding a declared labor dispute, at the request of the Bank workers' union, by the New Federation of Workers - Histradrut Hamaof, under the Labor Dispute Settlement Law, 1957. After settling the matters set out in the notice, the Histradrut Hamaof announced, on February 24 2022, that the dispute had been concluded.

Note 36 - Other Topics and Events Subsequent to the Balance Sheet Date (cont.)

As of the report publication date, all the conditions precedent included in the merger agreement and shareholders agreement have been met. The transaction is expected to be completed on April 1, 2021.

G. Bank Leumi USA (BLUSA) - Merger agreement

On September 23, 2021, Bank Leumi Corporation (hereinafter - "BLC"), a US-based corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Bancorp (hereinafter - "Valley").

Valley is a banking holding company, which holds Valley National Bank (hereinafter - "Valley Bank"). Valley Bank was founded in 1927. Once the transaction will have been completed, Valley Bank is expected to be the 29th largest bank in the US traded on NASDAQ.

Following the completion of the transaction and execution of the merger procedures, BLC will be merged into Valley and BLUSA will be merged into Valley Bank (hereinafter - the "**Merger Agreement**").

The consideration of the transaction will be paid to the Bank in Valley shares (90 percent of the consideration) and the rest - in cash. Following the completion of the transaction, the Bank is expected to hold 14.2 percent of Valley's share capital and to be the largest shareholder in Valley, but not the controlling shareholder.

The sale transaction will be treated as a loss of control in BLC. As of the transaction completion date, the Bank expected to treat its investment in Valley using the equity method.

The expected gain for the Bank from the completion of the transaction is NIS 650-750 million, after tax. The final gain will be determined in accordance with the share price, BLC's shareholders' equity and the exchange rate immediately prior to the date of completion.

The completion of the transaction is expected to improve Leumi's capital ratios by 0.5 percent.

At the same time as signing the merger agreement, the Bank entered into a shareholders' agreement with Valley, in which the following terms and conditions, among others, were agreed upon:

- The Bank will be entitled to appoint 2 directors for Valley's board of directors (who will also serve on key committees), as well as an observer on Valley's board of directors and 2 directors to the Valley Bank's board of directors. A decrease of the holding stake by approximately 12.5 percent in Valley will reduce the entitlement of the Bank to appoint one member of the board in each of the companies; a decrease under 5 percent in Valley will void the Bank's right to appoint the aforementioned board members.
- The locked Valley shares - to be held by the Bank for a period of 4 years - will vest in equal tranches of 25 percent per year.
- Participation transactions will continue, and Leumi Group customers active in the US will continue to be served.
- Regarding matters such as compensation, appointment of directors and shareholders' proposals, the Bank will vote in shareholders' meetings of Valley according to the recommendation of Valley's board of directors.

On December 6 2021, the Bank was informed that a shareholder of Valley filed a claim against Valley, its CEO and directors, alleging that the defendants had breached their duty of trust and duty of care by approving the transaction and the value of the transaction, and is therefore demanding several remedies, such as deferring the convening of Valley's general meeting until the trial has been concluded. BLC was listed as a defendant in the legal proceeding.

Note 36 - Other Topics and Events Subsequent to the Balance Sheet Date (cont.)

In January 2022, the Valley shareholder plaintiff filed a motion with the court announcing his wish to withdraw from the claim, and the claim was thus withdrawn.

H. The military confrontation between Russian and Ukraine

In late February 2022, a war broke out between Russia and Ukraine, which is continuing at this time. Due to the short time that has elapsed since then - until the closing of the financial statements, and due to the significant uncertainty, it is still too early to assess the full adverse effect of this geopolitical event on the Israeli economy. However, due to the characteristics of the commercial relations between these countries and Israel, the direct effect may be limited to a few industries which have production operations in Ukraine and Russia and/or which may have major customers in these countries. Most of the effects are expected to be indirect, as a result of global processes, such as lower global growth rates, in addition to an increase in the prices of commodities imported into Israel (such as food) and the sharp increase in energy prices around the world. In addition, the growing uncertainty is adversely affecting financial markets globally as well as asset values and - as a result – households and businesses in Israel.

I. Market developments subsequent to the balance sheet date

Subsequent to the balance sheet date, there were significant declines in the market, inter alia on the back of the interest rate increase and the military confrontation between Ukraine and Russia. At the same time, the increase in interest rates led to a decline in the pension liabilities. Most of the effect is on other comprehensive income.

J. Bank Leumi UK (BLUK)

On March 8 2022, the Bank's board of Directors approved the recommendation of BLUK's board to implement a measure which includes returning BLUK's regulatory license, such that after the measure will have been completed, BLUK will be a credit provision company. To this end, BLUK will be merged into LABL (hereinafter – the "Merged Company").

The Merged Company will provide credit primarily in the fields of real estate, hotels and ABL, to customers in the UK and Europe, including Israeli customers active in these geographies.

The implementation of the move is contingent on several conditions, including – a final decision by BLUK's board of directors and LABL's board of directors, receiving a permit from the Bank of Israel, receiving the approval of the English regulator and meeting the requirements of English law to complete the move.

The move is not expected to have a material effect on the Bank' financial results.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES

Corporate Governance, Additional Details and Appendices

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Members of the Bank's Board of Directors(*)(**)

Dr. Samer Haj Yehia, Chairman of the Board[a]

Mr. Yitzhak Edelman[a]

Mr. Sasson Elya[b]

Mr. Avi Bzura

Dr. Shmuel (Muli) Ben Zvi[c]

Ms. Tamar Gottlieb[d]

Ms. Esther Dominissini

Mr. Dan Alexander Koller[e]

Prof. Yedidia Stern[f]

Ms. Irit Shlomi

(a) External Director, according to the Companies Law, 1999.

(b) Mr. Sasson Elya was elected director with the status of External Director, in accordance with the provisions of the Companies Law, 1999, by the Bank's annual general meeting held on September 13 2021, commencing a first term of office on November 1 2021 after having received the Banking Supervision Department's notice of non-objection to his appointment as aforesaid. For more information, please see the immediate report regarding summons to annual general meeting dated August 5 2021 (Ref. No.: 2021-01-127977) and an immediate report on the results of the meeting published on September 13 2021 (Ref. No.: 2021-01-146520).

(c) Mr. Shmuel Ben Zvi was elected external director in accordance with Directive 301 by the Bank's annual general meeting held on September 13 2021. On October 27 2021, the Bank received the Banking Supervision Department's non-objection letter for Mr. Shmuel Ben Zvi's said appointment. Accordingly, and in accordance with the notice received from the Banking Supervision Department on July 8 2021, as detailed in the section entitled Changes in the Board of Directors, his third tenure began on July 29 2021 (the day following the end of his second tenure).

(d) Ms. Tamar Gottlieb was elected external director in accordance with the Companies Law, 1999, by the Bank's annual general meeting held on September 13 2021; she commenced her third term of office on October 15 2021 (the day following the end of her second term), after having received the Banking Supervision Department's notice of non-objection to her appointment as aforesaid.

(e) Mr. Dan Koller was elected external director in accordance with Directive 301 by the Bank's annual general meeting held on September 13 2021, commencing his term of office on November 13 2021, after having received the Banking Supervision Department's notice of non-objection to his appointment as aforesaid.

(f) External Director, in accordance with Directive 301.

* On October 31 2021, Mr. Ohad Marani's tenure as External Director in the Bank, in accordance with Directive 301, ended.
On November 12 2021, Mr. Yoram Gabbay's tenure as External Director in the Bank, pursuant to the provisions of the Companies Law, 1999, ended.

** For more information regarding members of the Bank's Board of Directors, please see "Changes in the Board of Directors" and Directive 26 in the Bank's 2021 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

As of the date of this report and its publication date, the Board of Directors has 10 members.

Pursuant to Proper Conduct of Banking Business Directive No. 31 (hereinafter - "Directive 301"), at least one third of the Board members should meet the qualification requirements for an external director as defined by Directive 301 (hereinafter - "External Directors"). Accordingly, as of the report date and its publication date, the Bank's Board of Directors includes 6 directors who are classified as external directors, including 3 External Directors in accordance with the Companies Law, 1999 (hereinafter - "ED" and the "Companies Law").

In addition, due to the "independent director" definition in the Companies Law, the Audit Committee of the Board of Directors resolved that the External Directors constitute independent directors.

Pursuant to the directives of the Banking Supervision Department and the provisions of the Companies Law and the regulations thereunder, the Bank's Board of Directors decided that at least three directors with "accounting and financial expertise" serving on the Board of Directors at any given time shall participate in the Board plenum's discussions of the draft financial statements and their approval. so as to enable the Board of Directors to meet its obligations in accordance with the law and the Bank's articles of association, and especially its responsibility for examining the Bank's financial position and preparing the financial statements.

In determining the said minimum number, the Board of Directors took into account the Bank's size, the complexity of its activity and the diverse risks involved, as well as its existing systems and procedures, such as: control, risk management, compliance, internal auditing and audit by the independent auditors. In addition, all Board members comply with the legal qualification requirements for serving as directors.

As of the report publication date - and as approved by the Board of Directors based on their education, experience, abilities and knowledge - 9 members of the board meet the definition of directors with accounting and financial expertise and professional qualifications in accordance with the Companies (Conditions and Tests for a Director with Accounting and Financial Expertise and Director with Professional Qualifications) Regulations, 2005. For more information regarding the education and experience of the members of the Bank's Board of Directors, please see Directive 26 in the periodic report.

As of January 1 2013 and pursuant to Directive 301, discussions regarding the financial statements take place in the Board of directors' Audit Committee. Pursuant to Directive 301, at least 2 members of the Audit Committee should have accounting and financial expertise. The Bank's Board of Directors determined that, at any given time, at least 3 directors with accounting and financial expertise will serve on the Board of Directors' Audit Committee. In practice, 4 out of 5 directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and decision-making by the Audit Committee is a majority of its members, provided that the majority of those present are External Directors who are also independent directors and at least one is an ED. As of the report date, the Audit Committee has 3 board members who are classified as EDs. It should be noted that on July 22 2020, the Bank's Board of Directors approved the split of the Compensation Committee from the Audit Committee.

In addition to the above, following are more details regarding additional qualifications for board members, in accordance with the revised version of Directive 301: 1) At lease one third of the members of the board are required to have banking experience; 2) At least half of the directors are required to have professional qualifications as defined in the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005; 3) At least one director is required to have proven knowledge and experience in information technology.

As of the reporting date and publication date: 1) The Bank has 5 directors defined as having "banking experience", i.e., Dr. Samer Haj Yehia, Tamar Gottlieb, Dan Koller, Avi Bzura and Irit Shlomi; 2) All members of the Board of Directors are defined as being "professionally qualified"; 3) The Bank's Board of Directors includes 2 directors classified by the Board as having proven knowledge and experience in information technology - Dr. Samer Haj Yehia and Mr. Sasson Elya.

Changes in the Board of Directors

As of the report publication date, the Board of Directors includes ten members, in accordance with the number of directors determined in banking corporations pursuant to Proper Conduct of Banking Business Directive No. 301 (hereinafter: "Directive 301"). During 2021, there were changes in the composition of the Board of Directors as detailed below.

As of the date of this report and its publication date, the Board of Directors has 10 members.

On July 8 2021, the Bank received a notice from the Banking Supervision Department, which noted that due to the expected decline in the number of directors at the Bank, once the three years of Dr. Shmuel Ben Zvi's tenure as External Director in accordance with Directive 301 will have elapsed on July 28 2021, after which the number of directors will have reached nine, a number which - according to the notice - is lower than the number of directors required in a banking corporation without a control core, in accordance with Section 22(b) of Directive 301, pursuant to its power under Section 11E(a)(6) to the Banking Ordinance, 1941, the Banking Supervision Department approves that Dr. Shmuel Ben Zvi shall continue in his position for an additional three months from the end of his said tenure or until the number of directors reaches the appropriate one (following the general meeting in which Dr. Ben Zvi is a candidate for re-election is held), the earlier of the two. In addition, it is noted that if Dr. Ben Zvi is elected for an additional term at the 2021 annual general meeting and his appointment is approved, his term will begin on the date in which the term was extended as aforesaid. For more information on this topic, please see detailed below.

On October 31 2021, Mr. Ohad Marani's tenure as External Director in the Bank, in accordance with Directive 301, ended.

On November 1, 2021, Mr. Sasson Elya started his tenure as External Director, pursuant to the provisions of the Companies Law, 1999, in the Bank.

On November 12 2021, Mr. Yoram Gabbay's tenure as External Director in the Bank, pursuant to the provisions of the Companies Law, 1999, ended.

On November 13 2021, Mr. Dan Koller's tenure as External Director in the Bank, in accordance with Directive 301, began.

On January 26, 2022, Mr. Yitzhak Edelman, CPA, who serves an External Director in accordance with the Companies Law, 1999 in the Bank since February 2, 2017, announced he would not be submitting, to the Committee for Appointment of Directors in Banking Corporations, an application to extend his candidacy as director in the Bank for a third term. CPA Yitzhak Edelman will complete his entire remaining term in February 2023. For more information, please see the immediate report published by the Bank on January 27 2022 (Ref. No. 2022-01-011986).

Annual general meeting and election of directors

On February 24 2021, the Bank published a preliminary notice regarding the intention to summon an annual general meeting of the Bank's shareholders to discuss several topics, including the appointment of two external directors in accordance with the requirements of the Companies Law, 1999 (hereinafter - the "Companies Law") and appointment of two external directors in accordance with Directive 301. For more information, please see the immediate report published by the Bank on February 24 2021 (Ref. No. 2021-01-022431).

Pursuant to the Preliminary Notice published by the Bank as aforesaid and in accordance with Sections 11D(a)(1), (2) and (3) to the Banking Ordinance, 1941, on June 7 2021, a notice was published by the Committee for the Appointment of Directors in Banking Corporations, which was appointed in accordance with Section 36A of the Banking Law (Licensing), 1981 (hereinafter - the "**Committee for Appointment of Directors**"). The notice includes a list of candidates to serve as the Bank's directors for election in the Bank's 2021 annual general meeting (hereinafter - the "**Candidates**"). For more information, please see the immediate report published by the Bank on June 7 2021 (Ref. No. 2021-01-097434).

In addition, on July 14 2021, the Committee for the Appointment of Directors published a notice regarding an alternative candidate. For more information, please see the immediate report published by the Bank on July 14 2021 (Ref. No. 2021-01-117102).

In the Bank's 2021 annual general meeting, which was held on September 13 2021, the following resolutions were approved:

1. To reappoint the auditing firms Somekh Chaikin (KPMG) and Brightman Almagor Zohar & Co. (Deloitte) as the Bank's joint independent auditors for the period starting on the date of approval of the current annual general meeting through the end of the Bank's next annual general meeting and to authorize the Bank's Board of Directors to set their fees.
2. To appoint Mr. Sasson Elya as External Director pursuant to the provisions of the Companies Law, 1999, for a period of 3 years. On October 28 2021, the Bank received the Banking Supervision Department's non-objection letter for Mr. Sasson Elya's said appointment. Accordingly, on November 1 2021, he began his first tenure as External Director in the Bank.
3. To appoint Ms. Tamar Gottlieb as an External Director pursuant to the provisions of the Companies Law, 1999, for an additional 3-year period. On October 14 2021, the Bank received the Banking Supervision Department's non-objection letter for Ms. Tamar Gottlieb's said appointment.Accordingly, on October 15, 2021 (the day after concluding her second term in office), she began her third term as External Director in the Bank.
4. To appoint Dr. Shmuel Ben Zvi as External Director pursuant to Directive 301, for a period of 3 years. On October 27 2021, the Bank received the Banking Supervision Department's non-objection letter for Mr. Shmuel Ben Zvi's said appointment. Accordingly, and in accordance with the information received from the Banking Supervision Department on July 8 2021, as detailed above, his third tenure began on July 29 2021 (the day following the end of his second tenure).
5. To appoint Mr. Dan Koller as External Director pursuant to Directive 301, for a period of 3 years. On November 11 2021, the Bank received the Banking Supervision Department's non-objection letter for Mr. Dan Koller's said appointment. Accordingly, on November 13 2021, he began his first tenure as External Director in the Bank, in accordance with Directive 301.

For more information, please see the immediate report regarding summons to annual general meeting dated August 5 2021 (Ref. No.: 2021-01-127977) (in this chapter - the "Summons Report") and an immediate report on the results of the meeting published on September 13 2021 (Ref. No.: 2021-01-146520).

Members of the Bank's Management and their Roles

Mr. Hanan Friedman, Adv.
President and Chief Executive Officer

Mr. Ronen Agassi, CPA[(1)]
First Executive Vice President, Head of Corporate Division

Mr. Shmulik Arbel[(1)]
First Executive Vice President, Head of Banking Division

Mr. Eyal Efrat[(1)]
First Executive Vice President, Head of Strategy, Digital, Data and Projects Division

Mr. Eyal Ben Haim
First Executive Vice President, Head of Operations Division

Ms. Bosmat Ben-Zvi, CPA[(1)]
First Executive Vice President, Head of Capital Markets Division

Mr. Omer Ziv, CPA[(1)]
First Executive Vice President, Chief Accounting Officer and Head of the Finance Division

Mr. Uri Yonissi, CPA[(1)]
First Executive Vice President, Head of Mortgages Division

Ms. Mor Fingerer, Adv.[(1)]
First Executive Vice President, Chief Legal Counsel, Secretary of the Bank and of the Group, Head of Legal Counsel Division and Head of Legal Risk

Ms. Avivit Klein[(1)]
First Executive Vice President, Head of Human Resources Division

Ms. Liat Shuv, CPA[(1)]
First Executive Vice President, Chief Risk Officer, Head of the Risk Management Division

Mr. Jaime Schcolnik[(1)]
First Executive Vice President, Head of Leumi Technologies Division

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Ms. Hagit Argov, CPA[(1)]
First Executive Vice President, Internal Auditor and Head of the Internal Audit Division

Somekh Chaikin
Brightman Almagor Zohar & Co.
The Bank's Joint Independent Auditors

(1) For information regarding changes in the Bank's management and senior officers during 2021, please see the section entitled "Appointments and Departures". For more information regarding members of the Bank's management, please see the Bank's 2021 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il

The Internal Auditor

On June 30 2021, Ms. Sharon Gur, Chief Internal Auditor and Head of the Internal Audit Division, has resigned from the Bank.

On June 17 2021, after receiving approval from the Bank of Israel, Ms. Hagit Argov was appointed Chief Internal Auditor of the Group and Head of the Internal Audit Division.

The Chief Internal Auditor meets the criteria of Section 146(b) to the Companies Law, 1999 and the provisions of Section 8 to the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law") and the employees of the Internal Audit Division meet the provisions of Sections 11 and 12 to Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function.

The Chief Internal Auditor is a full-time employee of the Bank, is a member of management and this is her sole occupation. The Internal Auditor reports to the Bank's Chairman of the Board.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up to three years. The annual work plan and the multi-year work plan are derived from a mapping of audit topics - which are based, inter alia, on the documents outlined in Directive No. 307. The work plans are derived from a systematic methodology for assessing risks and controls, according to which the frequency and scope of the audit for each topic are determined. Thus, audits of higher risk topics are carried out annually, while lower risk topics are audited every two to three years. Drafts of annual work plans and multi-year work plans are submitted by the Internal Audit Division and approved by the Chairman of the Board of Directors, Audit Committee and the Board of Directors' plenum.

The Internal Audit Division's annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, as necessary.

In addition, several audit days are allocated each year to unplanned audits and review of special incidents, enabling the Internal Auditor to examine ad hoc topics, either at the request of the Bank's management or Audit Committee, or as a result of new activities or topics undertaken by the Group.

As part of the audit work, a sample of material transactions carried out by the Bank – including their approval procedures – is examined. In this context, material transactions include a material acquisition or sale of an operation, "transactions" - in accordance with Section 270 to the Companies Law and "extraordinary transaction" – as defined by the Companies Law.

The Internal Audit Division's annual work plan and multi-year work plan each include all audit topics for the Bank, the material consolidated subsidiaries in Israel as well as the material foreign subsidiaries (as set forth in Note 15C).

Employees of the Internal Audit Division serve as internal auditors of the Bank's consolidated subsidiaries in Israel.

In the material foreign subsidiaries, local internal auditors (sometimes representatives of the Bank) are appointed.

The internal auditors of each of the material subsidiaries in Israel and abroad report to their respective boards of directors or audit committees, and Leumi's Internal Audit Division oversees their professional activity according to the requirements of the Bank of Israel and subject to local laws.

The Chief Internal Auditor and team of auditors in the Leumi Group in Israel comprise, on annual average, 79.5 positions for 2021, as outlined below:

	Average number of auditor positions in the Leumi Group in Israel
The Bank	75
Subsidiaries in Israel	1.8
Supervision and control over foreign subsidiaries	2.7
Total	79.5

* Of which 1.3 positions, on average, are on maternity leave or unpaid leave.

In addition, 6.6 positions are outsourced.
Furthermore, foreign subsidiaries employ local auditors in 12.2 positions (including outsourcing)
The number of positions was approved by the Audit Committee in Israel, based on the annual and multi-year work plans.
The Chief Internal Auditor may, within the framework of the budget, use outsourcers to carry out work that requires special knowledge or in the event of insufficient staff.

Set forth below is a breakdown of the benefits and amounts which were paid or provided for in 2021 to the Chief Internal Auditor in NIS thousands

2021					
% of the Bank's capital	Compensation for services			Other compensation	
	Salaries	Bonuses**	Social benefit contributions	Benefit value	Total*
	(in NIS thousands)				
-	975	587	242	69	1,873

* Excluding salary tax.
** Please see Note 23E.to the financial Statements.

The amounts and components of payments to the Chief Internal Auditor are submitted to and approved by the Audit Committee.

The Board of Directors believes that the fact that the Chief Internal Auditor holds securities and her compensation do not affect the exercise of her professional judgement.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

Furthermore, the Chief Internal Auditor operates in accordance with the directives and instructions of the Banking Supervision Department, including Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Audit Committee and Board of Directors have noted the Chief Internal Auditor's written statement, according to which she complies with all of the requirements set forth in the abovementioned generally accepted professional standards, and also operates in accordance with the directives of the Banking Supervision Department. Based on this statement and on her performance, as reflected in meetings of the Board of Directors' Audit Committee, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets the aforesaid requirements.

Audit reports and records are submitted to the audited entities in writing, after the findings are discussed with them. Furthermore, towards the date of issuance of the reports and records, material findings are discussed with the heads of divisions and with the President & CEO.

Audit reports and records are discussed by the Audit Committee several times a month. In addition to the Chief Internal Auditor, members of the Audit Committee also include representatives of the Internal Audit Division and the heads of the audited divisions and their representatives.

Ahead of Audit Committee meetings, the Chairman of the Audit Committee determines, after consulting the Chief Internal Auditor, which audit reports and records will be presented in their entirety for discussion by the Audit Committee. Furthermore, summaries of all audit reports and records issued by the Internal Audit Division throughout the relevant period are submitted on an ongoing basis for review by all Audit Committee members. Audit Committee members may review any audit report and record they deem fit and request that the Chairman present these reports and records in their entirety for discussion by the Audit Committee.

At the end of the first and second halves of the year, the Chief Internal Auditor submits reports summarizing the audit activities to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors; the reports include a summary of the material findings, the auditor's recommendations and the audited entity's responses.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors an annual report summarizing the audit activities during the course of the entire year; the report also monitors the implementation of the annual work plan and assesses the effectiveness of the Group's internal control framework.

The Internal Audit Division's work plan for 2021 was submitted to the Audit Committee on December 17 2020 and approved by the Committee on December 23 2020; the plan was submitted to the Board of Directors on December 31 2020 and was approved by the Board on January 13 2021.

The Internal Auditor's report for the first half of 2021 was submitted to the Audit Committee on August 23 2021 and was discussed by the Committee on August 30 2021; the report was reported to the Board of Directors on September 29 2021.

The Internal Audit Division's report for the second half of 2021 was submitted to the Audit Committee on February 7 2022 and was discussed by the Committee on February 14 2022; the report shall be submitted to the Board of Directors on March 8 2022.

The Internal Audit Division's annual report for 2021 will be submitted to the Audit Committee on March 14 2022, discussed by the Audit Committee on March 21 2022 and will be discussed by the Board of Directors on April 6 2022.

The Internal Audit Division's work plan for 2022 was submitted to the Audit Committee on December 13 2021 and approved by the Committee on December 20 2021; the plan was submitted to the Board of Directors on January 6 2022 and was approved by the Board on January 12 2022.

The Chief Internal Auditor received documents and information as specified in Section 9 to the Internal Audit Law and was given access to information as specified in that section, including continuous and indirect access to the Bank's information systems and to financial data.

Internal auditors auditing Leumi's Israeli and foreign subsidiaries were provided with documents and information as specified in Section 9 of the Internal Audit Law and given access to information as specified in that Section. These auditors have continuous and direct access to the information systems of the Israeli and foreign subsidiaries, including financial data.

The Board of Directors and Audit Committee believe that the scope, nature and continuity of the Chief Internal Auditor's activities and the work plan are reasonable under the circumstances, and are sufficient to implement the Internal Audit objectives of the Group.

The Independent Auditors' Fees (a)(b)(c)

	Consolidated		The Bank	
	2021	2020	**2021**	2020
	In NIS thousands			
For audit work:(d)				
Joint independent auditors	**22,035**	20,461	**11,982**	12,162
Other independent auditors	**240**	206	**-**	-
Total	**22,275**	20,667	**11,982**	12,162
For audit-related services(f)				
Joint independent auditors	**548**	599	**422**	322
For tax services:(e)				
Joint independent auditors	**1,629**	2,223	**423**	315
Other independent auditors	**21**	51	**-**	-
For other services:				
Joint independent auditors	**6,683**	5,901	**5,173**	5,237
Other independent auditors	**27**	491	**-**	-
Total	**8,908**	9,265	**6,018**	5,874
Independent auditors' fees - total	**31,183**	29,932	**18,000**	18,036

(a) The Board of Directors' Report to the Annual general meeting on the Independent Auditors' Fees in respect of Audit and Audit-Related Services, under Sections 165 and 167 to the Companies Law, 1999.
(b) The Independent Auditors' fees include payments to partnerships and corporations under their control and payments required pursuant to the VAT Law.
(c) Including fees paid and accumulated fees.
(d) Auditing of annual financial statements and review of interim financial statements.
(e) Includes the auditing of adjusted reports for income tax purposes, assessment discussions and tax advisory services.
(f) Audit-related fees mainly include: prospectuses, special certificates, comfort letters, and forms or reports to authorities which require the Independent Auditor's signature.
(g) Accountancy firm Somekh Chaikin (KPMG) has served as joint independent auditors of the Bank since 1950 and accountancy firm Brightman Almagor Zohar (Deloitte) serves as joint independent auditors since 2020.

Officer Compensation Policy

The Bank's Officer Compensation Policy for 2020-2022

On December 23 2019, the Bank's general meeting approved the updated compensation policy for the Bank's officers (hereinafter - the "Compensation Policy"). The Compensation Policy went into effect as of the beginning of 2020 and will be in force until the end of 2022. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officers' service and employment terms and conditions, on Proper Conduct of Banking Business Directive 301A regarding compensation policy in a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy sets out a framework for the compensation of Bank's officers and includes, among other things, fixed compensation components, which is the principal compensation paid to officers, which includes a fixed salary, social benefits, related benefits and retirement and post-employment benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as: a measurable annual performance bonus comprised of a bonus component based on the Bank's weighted efficiency ratio compared to the return on the TA-Banks Index; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer's areas of responsibility; and a retention bonus for special events. It should be noted that the Board members, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank's President and CEO is not entitled to a variable annual bonus, unless the competent of the Bank decide otherwise.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer.

The Bank's Board of Directors may also reduce the amount of the measurable annual bonus, after obtaining the approval of the Compensation Committee. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment to officers of variable annual bonus, whose payment is subject to the Bank's meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date.

The Compensation Policy includes various mechanisms and arrangements designed to allow the Compensation Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank's general meeting for every such revision. Such revisions will be made when, in the opinion of the Bank's Compensation Committee and the Board of Directors, they are justified under the circumstances on revision date.

Thus, for example, according to the Compensation Policy, the Compensation Committee and the Board of Directors will be entitled to link the lowest compensation paid by the Bank for purposes of Section 2(B) of the Compensation Limitation Law to the maximum compensation of Bank's officeholders such that the total compensation amount to officeholders (excluding compensation the payment of which is not expected under generally accepted accounting principles) and the lowest compensation paid by the Bank at that time will increase by the same rate. According to the Compensation Policy, the compensation of any of the officers at the Bank which will exceed, according to a decision by the Compensation Committee and Board of Directors the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance.

For more information regarding the Compensation Policy and the employment terms of the Chairman of the Board and the President and CEO, please see the Report on Summons of the Extraordinary General Meeting of the Bank published on November 10 2019 (Ref. No.: 2019-01-096531) as well as Note 23B.2 and 23B.3 and Note 23B.3.

Compensation of Senior Officers

For the year ended December 31 2021

Set forth below is a breakdown of the benefits and amounts paid or provided for in 2021 and 2020 to the Chairman of the Board of Directors and to the highest paid senior officers of the Group. The benefits described below do not include benefits in respect of banking services that are provided to the Bank's employees, such as preferred interest rates on financial deposits with the Bank, preferred interest rates on mortgages, discounts or exemptions from fees and commissions payable on banking services provided by the Bank, etc. The amounts of the benefits awarded to each of the employees in respect of such banking services are immaterial. Certain private customers of the Bank, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

2021							
Details of recipient of compensation[1]		Compensation for services				Other compensation	
Name	Job title	% of the Bank's equity	Salaries / management fees	Bonuses[5]	Social benefit contributions[3]	Benefit value[4]	Total[2]
		%	(in NIS thousands)				
Dr. Samer Haj Yehia[6]	Chairman of the Board	-	2,995	-	324	9	3,328
Mr. Hanan Friedman[7]	President & CEO	0.01%	2,774	-	489	58	3,321
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	2,488	5,721	297	184	8,690
Mr. Dave Paulson	Head of Commercial Banking at Bank Leumi USA	-	1,400	2,687	124	-	4,211
Mr. Raja Dakkuri	CFO and VP Operations at Bank Leumi USA	-	1,446	2,749	268	-	4,463
Dr. Avi Ortal	CEO of Leumi Partners	-	1,346	4,063	450	123	5,982
Mr. Eliav Ben David	CEO of Leumi Partners Underwriters	-	1,034	2,538	311	83	3,966
Ms. Avivit Klein[8][9]	First Executive Vice President, Head of Human Resources Division	-	961	603	804	75	2,443
Mr. Shmulik Arbel[8][10]	First Executive Vice President, Head of Banking Division	0.01%	1,534	734	715	124	3,107
Mr. Eyal Ben Haim[8][11]	First Executive Vice President, Head of Operations Division	-	1,182	768	589	78	2,617

1. The compensation recipients work full time.
2. Excluding payroll tax.
3. Social benefit contributions include contributions for severance pay, bonuses, pension (including the "unfunded pension" arrangement applicable to veteran employees and officers - for more information, please see Note 23.A.1), study fund, and social security, as well as supplementary provision in respect of the above due to salary changes during the reporting period. The Bank's senior employees have special personal employment contracts with the Bank. For more information regarding the retirement benefits of senior employees and their eligibility for advance notice on retirement, please see Note 23.B.1.

   It is clarified that the cost of employing officers does not include the cost of interest (the interest component, which is presented according to the financial standards under operating expenses).
4. The value of the benefit includes, inter alia, car and telephone expenses.

5. Including an annual variable bonus for 2021 for senior officers of the Bank (other than the Chairman of the Board and the President and CEO), in accordance with the Compensation Policy of the Bank; a long-term incentive bonus, a sign-on bonus, and a special bonuses. For more information regarding senior employees' eligibility for bonuses in accordance with the new officers compensation policy, please see Note 23.E.

6. Dr. Samer Haj Yehia has served as Chairman of the Bank's Board of Directors since July 22 2019, prior to which he served as director beginning on September 30 2014. On December 23 2019, the Bank's general meeting approved the service terms and conditions of the Bank's Chairman of the Board under the Bank's compensation policy and in accordance with Directive 301A. The Chairman of the Board's service terms and conditions are in accordance with the Compensation Limitation Law and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law. It is clarified that the Chairman of the Board of Directors is not entitled to a variable annual bonus.

   As of September 2021, the Chairman of the Board began to provide services to the Bank through a management company he owns, against a tax invoice issued to the Company. For more information regarding the Chairman of the Board's employment terms and conditions, please see Note 23.B.3 and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

7. Mr. Hanan Friedman serves as the Bank's President and CEO as of November 1 2019 (hereinafter - the "Commencement Date"). Prior to that, Mr. Friedman served as an officer of the Bank since September 1 2014. On December 23 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO under the Bank's compensation policy. The President and CEO's service and employment terms and conditions are in accordance with the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "**Compensation Limitation Law**") and include a fixed supplementary compensation component which is allowed under the Compensation Limitation Law.

   Under the President and CEO's service and employment terms and conditions, he is not eligible for a variable annual bonus.

   For more information regarding the President and CEO's employment terms and conditions, please see Note 23.B.2 and the Bank's immediate report regarding convening of a general meeting, dated November 10 2019 (Ref. No.: 2019-01-096531).

8. During the reporting period, an unexpected expense was recorded, which is not included in the above table, due to updated actuarial calculations and/or changes in the discount rate, in respect of the Bank's liabilities for benefits acquired prior to the effective date of the Compensation Limitation Law, by employees who were subject to Generation A and Generation B terms. These employees acquired - during their work at the Bank, until October 2016 and in accordance with their prior employment terms with the Bank - benefits for "unfunded pension" (old age pension and interim pension in case of early retirement under certain conditions) and/or other benefits.

9. Ms. Avivit Klein serves as of April 1 2021 as Head of Human Resources Division and is a member of management. Ms. Klein's service and employment terms and conditions are in line with the Bank's Compensation Policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 3,167 thousand in respect of its liabilities as outlined in Footnote 8 above.

10. Mr. Shmulik Arbel is a member of management as of April 1 2017. As of the beginning of 2021, Mr. Arbel serves as Head of the Banking Division. Mr. Arbel's service and employment terms and conditions are in line with the Bank's compensation policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 743 thousand in respect of its liabilities as outlined in Footnote 8 above.

11. Mr. Eyal Ben Haim is a member of management, and as of April 1 2019, serves as the Head of the Operations Division. Mr. Ben Haim's service and employment terms and conditions are in line with the Bank's compensation policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 797 thousand in respect of its liabilities as outlined in Footnote 8 above.

12. Loans under beneficial terms granted, if granted, pursuant to the accepted terms and conditions for all of the Bank's employees and their amounts were set according to uniform criteria. The said loans were marginal in terms of amount (a few thousands of shekels) and were therefore omitted from the table.

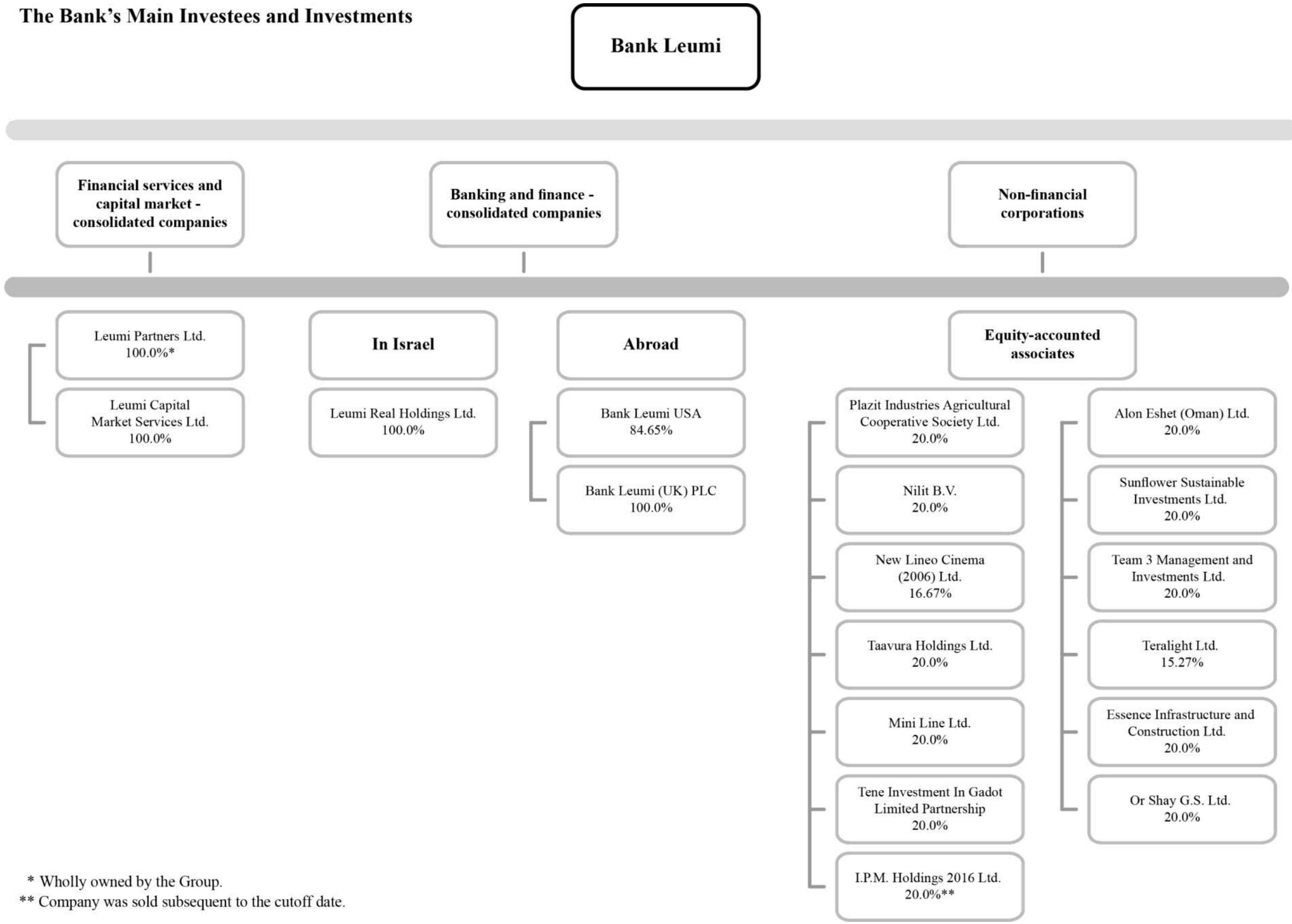
13. Directors and other officers are covered by directors and officers liability insurance policy (D&O) taken out by the Bank and its investees. The relative insurance premium is marginal and therefore not included in the above tables. The premium totaled NIS 9,412 thousand for all of the Group's insured officers.

14. The Board of Directors believes - after conducting discussions, receiving explanations and proper, relevant background material and reviewing the compensation while taking into account the Bank and Group's activity and performance in 2021 and taking into account the Group's compensation policy and its subsidiaries' compensation policy, as well as the work and performance of each senior officer of the Bank or Group - that the compensation paid to the aforementioned senior officers, as set out in the table and explanations above, in no way exceeds fair and reasonable compensation under the circumstances, taking into consideration each of the aforesaid officers' contribution to the Bank's operating results and thus believes that the compensation, as aforesaid, is for the benefit of the Bank.

2020							
Details of recipient of compensation		Compensation for services				Other compen-sation	
Name	Job title	% of the Bank's equity	Salaries	Bonuses(5)	Social benefit contributions (3)	Benefit value(4)	Total(2)
		%	(in NIS thousands)				
Dr. Samer Haj Yehia	Chairman of the Board	-	2,717	-	479	116	3,312
Mr. Hanan Friedman	President & CEO	-	2,766	-	487	67	3,320
Mr. Avner Mendelson	CEO of Bank Leumi USA	-	2,572	2,443	550	192	5,757
Mr. Dave Paulson	Head of Commercial Banking at Bank Leumi USA	-	1,447	1,945	99	161	3,652
Mr. Raja Dakkuri	CFO and VP Operations at Bank Leumi USA	-	1,447	1,784	244	-	3,475
Dr. Avi Ortal	CEO of Leumi Partners	-	1,341	1,266	434	125	3,166
Mr. Eliav Ben David	CEO of Leumi Partners Underwriters	-	768	1,972	225	51	3,016
Mr. Omer Ziv	First Executive Vice President, Head of Finance Division	-	1,588	134	551	98	2,371
Ms. Sharon Gur	First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division	-	1,227	-	599	106	1,932
Mr. Eyal Ben Haim	First Executive Vice President, Head of Operations Division	-	1,119	85	444	78	1,726

For information and explanations regarding salaries and tenure terms of the officers outlined in the above table in respect of 2020, please see the section entitled "Officer Salaries" in the Bank's 2020 annual financial statements.

The Bank's Main Investees and Investments



* Wholly owned by the Group.
** Company was sold subsequent to the cutoff date.

Control of the Bank

As of March 24 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

For up-to-date information on interested parties' holdings in the Bank as of December 31 2021, please see the immediate report dated January 6 2022 (Ref. No. 2022-01-003598), Status of Holdings of Interested Persons and Senior Officers. Please see also the immediate report on the list of holders of significant means of control in the Bank as at March 31 2021, dated April 7 2021 (Ref. No. 2021-01-058458).

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31 2021 amounted to NIS 2.7 billion, similar to last year.

Investments in buildings and equipment as at December 31 2021 are as follows

	Cost	Accumulated depreciation	Carrying value	
	December 31			
	2021			2020
	In NIS millions			
Buildings and land	**2,878**	**1,602**	**1,276**	1,339
Equipment, furniture and vehicles	**3,520**	**2,760**	**760**	799
Software costs	**4,517**	**3,833**	**684**	794
Total	**10,915**	**8,195**	**2,720**	2,932

The above buildings and equipment are used primarily for the Group's activities. Buildings that are not used by the Group and are leased to non-Group parties and included in the consolidated balance sheet as of December 31 2021, amounted to NIS 20 million.

Real estate

The majority of the buildings in which the Group conducts its business in Israel are owned by the Bank or by its subsidiaries. Most of the properties in which the Group conducts its business abroad are leased.

Set forth below are data regarding the breakdown of the areas of the Bank, Binyanei Bank Ltd. and Lin City Center Ltd.

	As at December 31	
	2021	2020
	In m^2 thousand	
Owned	**247**	249
Leased	**76**	87
Total	**323**	336

Intended sale of Beit Mani

Due to the expected move of management and headquarters to the Lod facility, the Bank has published a sale offer for Beit Mani (Leumi House, the main headquarters offices and Beit Mani), featuring a total above-ground built-up area of approximately 13,000 square meters. It is hereby clarified that the sale offer does not constitute a commitment of the Bank to sell the property.

IT systems

Bank Leumi has two principal IT centers: a primary center in Lod and a secondary center in Har Hotzvim, Jerusalem; the latter is a hosting site outsourced to Binat. In addition, a third back-up copy of the data is stored at the Banking Center facility in Har Hotzvim, Jerusalem.

The Bank's computing centers in Lod and Jerusalem are underground facilities protected at an accepted level against rocket attacks, chemical warfare and earthquakes. The facilities were constructed using advanced technologies to enable the Bank to maintain its regular functionality independently in times of emergency. To the Bank's understanding, the survivability and redundancy levels of the computer center's infrastructures are equivalent to Tier-3 levels and the infrastructures comply with various international standards.

Bank Leumi has two mainframe computers, for use by the production, development, and emergency recovery systems. The Mortgage Department's main computer center is located in Lod and its backup site is in Har Hotzvim, Jerusalem.

Leumi's information and cyber security practices are based on the banking privacy policies or secrecy principle and various laws and directives, such as the provisions of the Protection of Privacy Law and regulations promulgated thereunder, the provisions of the Computers Law, Bank of Israel's directives, and generally accepted international standards relating to information security and cybersecurity.

Under these provisions and in light of Leumi's strategy and policy regarding cyber risk management, the Bank is highly active in this field. The main focus in this area is the implementation of controls and forward-looking information security mechanisms.

In a time of increasing threats posed both from within the organization and by external parties, Leumi takes measures to protect itself from cyberattacks and works to hedge the risks arising from various types of cyber attacks. In addition, Leumi works in coordination with the Banking Supervision Department of the Bank of Israel, the banking sector and the National CERT to enhance its ability to tackle cyber threats.

The operations and computer-related activities of the Israeli and foreign subsidiaries are based on separate systems and the managements and boards of directors of those subsidiaries bear the managerial and professional responsibility for those activities which are coordinated with Leumi's IT strategy.

For information regarding the agreement for the provision of computer services to Union Bank, please see the section entitled "Material Agreements".

In 2021, the Group invested in equipment (including software) approximately NIS 498 million, compared with approximately NIS 530 million in 2020. The budget was adjusted to support the strategic targets set by the Bank's management.

For more information, please see Note 16.

In 2021, the following products and services were added:

The new Leumi App - a new app for retail customers, with an advanced user experience, which provides all financial information in one place.

Credit card through digital channels - quick online application for a credit card. Once the customer's credit card has been issued, the customer can use it to pay, through his/her mobile device (connected to the digital wallet) online and in card-not-present (CNP) transactions. The physical card is sent to the customer by post.

Transitioning from one bank to another - a new service on the Leumi website allowing the Bank's customers to submit a request for transferring their financing activity from another bank into Bank Leumi. The service is also incorporated as part of the process of opening an account on the App, which means that when opening a new account, the customer receives a link allowing him/her an easy transition to the bank.

Car loans - a service allowing Leumi customers and prospects to receive a car loan offer digitally, through our affiliate car dealer - Champion Motors.

Intangible Assets

1. The Bank is the sole proprietor in Israel of the "Leumi" trademark and its accompanying logo, in the field of banking and finance services.
2. Furthermore, as part of its activities, the Group uses the names of the companies and their logos as well as products and services’ names, some of which are registered as trademarks or service marks.
3. The Group has registered databases in which it stores, among other things, information pertaining to Leumi’s customers, suppliers and employees. The Group implements advanced technological means designed to secure customers’ activity and the Bank's business activity, while mitigating the risks arising from using information systems.
4. The Group has various intellectual property rights and licenses to use various computer software and information systems for the purpose of managing its business, including the provision of services to its customers.
5. The Group has goodwill arising from the acquisition of companies. For more information, please see Note 17.

Human Resources

Work force

In 2021, the number of positions in the Group decreased by 300, a 3.4 percent decrease compared with 2020. The annual average number of positions in the Group fell by 416, a 4.6 percent decrease compared with 2020.

	Positions[a] as at the end of the year		Annual average no. of positions[a]	
	2021	2020	**2021**	2020
The Bank in Israel	**7,672**	7,946	**7,808**	8,211
Consolidated Companies in Israel	**222**	231	**225**	231
Group in Israel - total	**7,894**	8,177	**8,033**	8,442
Consolidated Companies outside Israel	**622**	[b]639	**631[b]**	[b]638
Group in Israel and abroad - total	**8,516**	8,816	**8,664**	9,080

(a) Position - a full-time position including specific overtime, working hours of service bureaus and employment of contract workers.
(b) Including foreign offices.

Positions by operating segments - Management Approach

	Average number of jobs	
	2021	2020
Banking:		
Retail, premium and private banking	**3,557**	3,835
Mortgages	**519**	433
Small businesses	**1,439**	1,581
Banking - total	**5,515**	5,849
Commercial	**1,097**	1,135
Corporate	**424**	409
Real estate	**212**	223
Capital markets	**531**	553
Other and adjustments	**29**	42
Bank - total	**7,808**	8,211
Subsidiaries in Israel	**225**	231
Foreign subsidiaries	**631**	638
Total	**8,664**	9,080

The number of positions by operating segments is calculated based on the management of the workforce according to the Bank's main lines of business, with various adjustments, and based on estimates. When calculating the number of positions by operating segments, the Banks also included HQ employees, who serve all or some of the Bank's operating segments.

Education

As at the end of 2021, the percentage of Bank employees who hold an academic degree was 78.0 percent of all employees, compared with 78.7 percent in 2020 and 77.7 percent in 2019. In the years 2020-2021, the percentage of Bank staff employees with academic degrees reached 97.4 percent, compared with 97.2 percent in 2019.

Age and seniority

As at the end of 2021, the average age of Bank's employees was 43.9, compared with 43.8 in 2020 and 42.9 in 2019. As at the end of 2021, the average seniority of Bank's employees was 15.5 years, compared with 15.8 in 2020 and 15.0 in 2019.

Compensation mechanism and salary structure

The salary structure and compensation level of the Bank's employees is mainly affected by existing collective labor agreements. As a rule, the annual compensation is differential and is based, among other things, on the complexity of the employee's role, his/her contribution to the Bank, his/her manager's assessment, rank and pay grade.

Employee benefits

Labor relations between the Bank and its Israeli employees, except for those who have personal employment contracts, are primarily based on a basic collective labor agreement known as the "Labor Code" and on collective and supplementary agreements. The employment terms of members of the Bank's management, senior employees and certain other employees are regulated by personal employment contracts. For more information, please see Note 23.

Labor and salary costs (in the Bank)*

	2021	2020	2019
	In NIS thousands		
Cost per employee position - (excl. bonus)	407.3	395.0	381.6
Cost per employee position - (incl. bonus)	476.5	397.4	431.9
Salary per employee position - (excl. bonus)	258.2	253.8	244.2
Salary per employee position - (incl. bonus)	313.8	255.7	285.1

* Cost per employee position includes the cost of service and cost of interest (less expected return) for active employees.

Organizational development and learning

Learning and organizational development are key tools for strategic planning and management of human capital and for adapting employees' skills to the changing business needs. Learning and development constitute an inseparable part of the value proposition to employees and a significant component of employee engagement. The coronavirus period brought about a new challenge to the domain of organizational development and learning, necessitating transformation in the way employees are trained for core positions, improve their skills and develop new knowledge and relevant skills. In the training and learning domain, most organizational development and learning processes have been transformed from in-person learning to hybrid learning processes which combine online and in-person training; in this framework, entire core courses have been converted, new learning methods have been developed, content was revised and relevant infrastructure created to allow for hybrid learning. In total, 205,000 learning hours were logged by the organization in 2021 (the figure was conveyed in hours since learning is mostly digital and decentralized).

Learning and training for the future - re-skilling and up-skilling

While preparing for the changing trends in the financial world and the changing needs under the coronavirus, we continue to prepare for the changes and opportunities in the new normal. To this end, we train our employees for the needs and skills of the future world of work. In this context, we continued to operate Shift - the school for the professions of the future, and Shift Light - a school for the skills of the future. To date, approximately 120 employees have participated in Shift tracks: product managers, software testers, system analysts, analysts, international trade specialists, and mortgage advisers and hundreds of employees underwent an upskilling process under Shift Light, honing their skills for banking roles.

Knowledge conservation

For organizational knowledge conservation purposes, units and functions with material effect were mapped. Subsequently, solutions were developed which include knowledge conservation measures for the units, training of additional employees for similar roles, with the units developing back-up mechanisms.

Leadership development

During the year, leadership development programs were held for various ranks at Leumi, to promote excellence. A talent retention and succession developed program was introduced. As part of the program, Excellence Top was created - a program for outstanding managers of the leadership forum - with the aim of promoting excellence across the organization by providing excellence training to units.

Corporate social responsibility, donations and employees' involvement in the community

As a financial group with major impact on Israel's business and public culture, we regard our commitment to the community as a social and ethical anchor we will continue to cultivate (from Leumi's Vision). The Bank's corporate social responsibility activity reflects our commitment to empowering Israel's society and economy and constitutes a direct continuation of Leumi's ongoing, year-long activity as an organization working in the community and for the community.

In 2021, we continued to work in accordance with the reality, which changed unrecognizably following the implications of the coronavirus, in terms of life in the State of Israel in general and for NGOs and the needy in particular. Leumi contributed hundreds of thousands of shekels to hospitals and NGOs for the purpose of purchase medications and medical equipment.

In 2021, Leumi continued to invest in "tomorrow's generation" (youth and children) primarily through its long-term strategic partnership with Follow Me! - an NGO boosting social integration of youth from Israel's social and geographic periphery. Hundreds of the Bank's employees continued to adopt Follow Me! groups from across Israel, and to volunteer at a variety of events held by the NGO throughout the year.

Leumi continued its support of the following NGOs: "Young Entrepreneurs", "Atidim", "Shiur Acher", "Etgarim", "Cochavei Hamidbar" - which develops young leadership skills among Bedouin youth, and the Adopt a Soldier program under which Leumi has adopted four IDF units.

According to its revised social policy, Leumi boosted its outreach activity among the elderly, in several channels, which included: support for the "Ken LaZaken" NGO - which promotes the elderly's rights in Israel, as well as for the "Zikaron BaSalon" and "PHOTO IS:RAEL" NGOs; the Bank also offers courses and workshops on digital and financial content to the elderly through "Machshava Tova" and volunteers from among Leumi employees. The Bank continued to operate 2 mobile branches for dozens of homes for the elderly and assisted living facilities across Israel. The Bank's employees continued to volunteer, assisting in distributing gift baskets donated by the banks to homes of approximately 1,000 older people living alone ahead of Purim and Hanukah; the drive was conducted in cooperation with the Ruach Tova NGO and featured approximately 1,000 support packages distributed to needy older people supported by the "LaTet" NGO.

As in each year, the Bank donated approximately 4,000 parcels for the needy in Jewish society and approximately 2,000 parcels in Arab society, in cooperation with NGOs LaTet and Amaniana.

This year, outreach in the Arab community continued, boosting the cooperation and contact with the Bank's branches and local authorities. In this context, 15 environmental initiatives were held, which included volunteer work by branch workers serving the Arab community, donations by the Bank and coordination with local authorities.

In 2021, total community outreach investment was NIS 38 million, with over 3,000 of the Bank's employees from all functions volunteering in numerous programs, investing a total of 25,000 hours in volunteer work.
ESG topics are covered extensively by the ESG Report on Leumi's website; the report outlines the Group's ESG activity and describes how the Bank invests in the growth of Israeli society and economy to advance innovation and digital tools, develop human capital and preserve the environment - through fair business conduct and corporate governance.

Appointments and Departures

Appointments

CPA **Ronen Agassi**, Head of Capital Markets Division and member of the Bank’s management, was appointed Head of the Corporate Division and Deputy CEO, as of January 1 2021.

Mr. **Shmulik Arbel**, Head of the Corporate Banking Division and a member of the Bank's management, was appointed Head of the Banking Division and Deputy CEO as of January 1 2021.

CPA **Bosmat Ben Zvi**, Head of Risk Management Division and member of the Bank’s management, as First Executive Vice President, was appointed Head of the Capital Markets Division, as of January 1 2021.

CPA **Liat Shuv** was appointed Head of Risk Management Division, member of the Bank’s management and First Executive Vice President, as of January 1 2021.

Mr. **Jaime Schcolnik** was appointed Head of Leumi Technologies Division, member of the Bank’s management and First Executive Vice President, as of January 1 2021.

Ms. **Avivit Klein** was appointed Head of Human Resources Division, member of the Bank’s management and First Executive Vice President, as of April 1 2021.

CPA **Omer Ziv,** who served as member of management and Head of the Finance Division, as First Executive Vice President, was appointed Chief Accounting Officer and Head of Finance and Accounting Division as of April 1 2021.

CPA **Hagit Argov** was appointed Chief Audit Executive and Head of the Internal Audit Division, and First Executive Vice President, as of June 17 2021.

Mr. **Eyal Efrat** was appointed Head of the Strategy, Digital, Data and Projects Division, member of the Bank’s management and First Executive Vice President as of October 1, 2021.

CPA **Uri Yonissi,** Head of the Customer Relations Division and member of the Bank’s management and First Executive Vice President, was appointed Head of the Mortgage Division as of January 1, 2022.

Adv. **Mor Fingerer**, who served as member of the Bank’s management and Chief Legal Counsel and Head of the Legal Counsel Division, First Executive Vice President, was also appointed secretary of the Bank and Group as of March 1 2022.

Ms. **Sharon Daniel** was appointed Chief Compliance Officer and Head of Compliance and Enforcement Department, effective January 11 2021.

Departures

Ms. **Hilla Eran-Zick**, Head of Human Resources Division and member of the Bank’s management, completed her term in office on March 31 2021, after 29 years of working at Leumi.

CPA **Shlomo Goldfarb**, Chief Accounting Officer, Head of the Accounting Division and member of the Bank’s management, completed his term in office on March 31 2021, after 40 years of working at Leumi.

Ms. **Sharon Gur**, Chief Auditor and Head of the Internal Audit Division, completed her term in office on June 30 2021 after 28 years of working at Leumi.

Adv. **Livnat Ein-Shay Wilder**, Secretary of the Bank and the Group, resigned on February 28 2021, after 5 years of working at Leumi.

Adv. **Hadar Vismunski Weinberg**, Secretary of the Bank and Group, resigned from the Bank on February 28 2022.

Corporate Structure

The Leumi Group's organizational structure is divided into business lines and headquarters divisions.

Set forth below is a description of Leumi's four lines of business, which focus on the different market segments:

The **Banking Division** manages the activity of private and small commercial customers, who receive the full range of services through the branches array and through a variety of technological/direct distribution channels. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their banking and service needs.

The Division is divided into business lines:

- The **Retail Department** is responsible for activity and services for households and private individuals.
- The **Business Department -** The Department is in charge of all activities of small business customers (mid-size and large businesses are handled by the Corporate Division - please see below).
- The **Private Banking Department** is responsible for private banking activity in Israel. The Private Banking Department provides service customized to high net worth customers.

The Banking Division includes the banking call center and Leumi Personal call center, which offer customers telephone support, providing information and assisting in performing transactions.

The Banking Division is also responsible for the Bank's Marketing Department and Pepper.

The **Mortgage Division** is responsible for all mortgage-related and housing loan activity at the Bank, serving both the Bank's customers and customers of other banks taking out mortgage loans from Bank Leumi.

The **Corporate Division** is responsible for all business customers (except small businesses, which are managed by the Retail Banking Division - please see above) and provides them with a range of services, which include, inter alia, financing of working capital and inventory, project and investment plan funding, factoring, international trade and financing, investment activity, hedges, etc. The division also manages syndication transactions and debt selling and optimizes the credit portfolio. The Division's customers are divided into business lines:

- The **Corporate Department** is responsible for large Israeli corporations on the basis of sector expertise and synergies.
- The **Commercial Banking Department** is responsible for middle-market companies, through business centers across Israel.
- The **Construction & Real Estate Department** manages the banking activities of large construction companies, real estate entrepreneurs and contractors in Israel. The Department's employees have specific skills and expertise in all areas of the Israeli real estate market.
- **LeumiTech** serves high-tech and venture capital funds for the Group. The Department specializes in all segments of the technology industry.

The **Corporate Division is also responsible for the Special Loans Department** - which is responsible for reducing exposure to corporate customers in difficulties, as well as collecting debt by realizing collateral through legal means, reaching debt settlement agreements where applicable.

The **Capital Markets Division** is in charge of managing the Group's monetary assets in Israeli currency and foreign currencies, managing the nostro account, managing the activities of the Bank's trading room, developing innovative financial and investment products, managing the Bank's assets and liabilities, managing liquidity, setting the Bank's price policy and financial margins, and coordinating the Bank's operational capital market services.

Following are the purviews of the headquarters divisions, which provide services to the business lines:

The **Finance Division** is responsible for coordinating and preparing the Bank's work plan, managing P&L centers and financial and managerial measurement, planning and managing the Group's capital, preparing the Bank's expenditure budget and monitoring its implementation. The Division responsible for the accounting department; as such, it manages, develops and sets the Bank's accounting procedures; it manages the Bank's books of account and prepares the financial statements of the Bank and the Group; and it maintains the Bank's relations with the Bank of Israel regarding all accounting matters and related reports.

The **Human Resources Division** is responsible for developing and implementing the human resources strategy, labor relations, salary and compensation structure, organizational consulting and development, including executive learning and training, banking training, employee welfare and corporate social responsibility.

The **Leumi Technologies Division** is responsible for the IT systems of the Bank and activities related to technological development, communications, cyber and information security and Group and coordinates the IT strategy and policy at the group level.

The **Operations Division** is responsible for the execution of most operational issues at the Bank, serves as an infrastructure for professional knowledge and customer service improvement.

The **Legal Counsel Division** advises the Bank and its Israeli subsidiaries on all legal matters and manages the Bank and the Group's legal risks. The Division is also responsible for the Bank's ombudsman and secretariat.

The **Risk Management Division** is responsible for mapping, identifying and measuring all the risks to which the Group is exposed, including creating an infrastructure to examine the risks embodied in new activities. In addition, the division includes the Compliance Department, which is responsible for implementing the Bank's compliance program.

The Strategy, Digital**, Data and Projects Division** is responsible for leading strategic development and implementation processes in the Leumi Group, business development - which includes initiating business ventures until they are handed over to the relevant business line, customer experience, usability, performance, data availability, analysis, QA, as well as service and sales models.

The **Internal Audit Division** is independently responsible for Leumi Group's internal auditing.

Following are the main organizational changes carried out during 2021 and early 2022:

The **Finance and Accounting Division** - As of April 1 2021, the Finance Division and Accounting Division were merged.

The **Strategy, Digital, Data and Projects Division** - On October 1 2021, a new division was established, consolidating the activities of the Strategy Department, the CDO Department and digital activities; it will also be responsible for leading cross-company, cross-silo projects.

Mortgage Division - on January 1, 2022, the division was set up, and was charged with all of Bank Leumi's mortgages and housing loans activity.

Customer Relations Division - on January 1 2022, the division was closed and its activities were divided between the Banking Division and the Mortgage Division.

Additional Topics

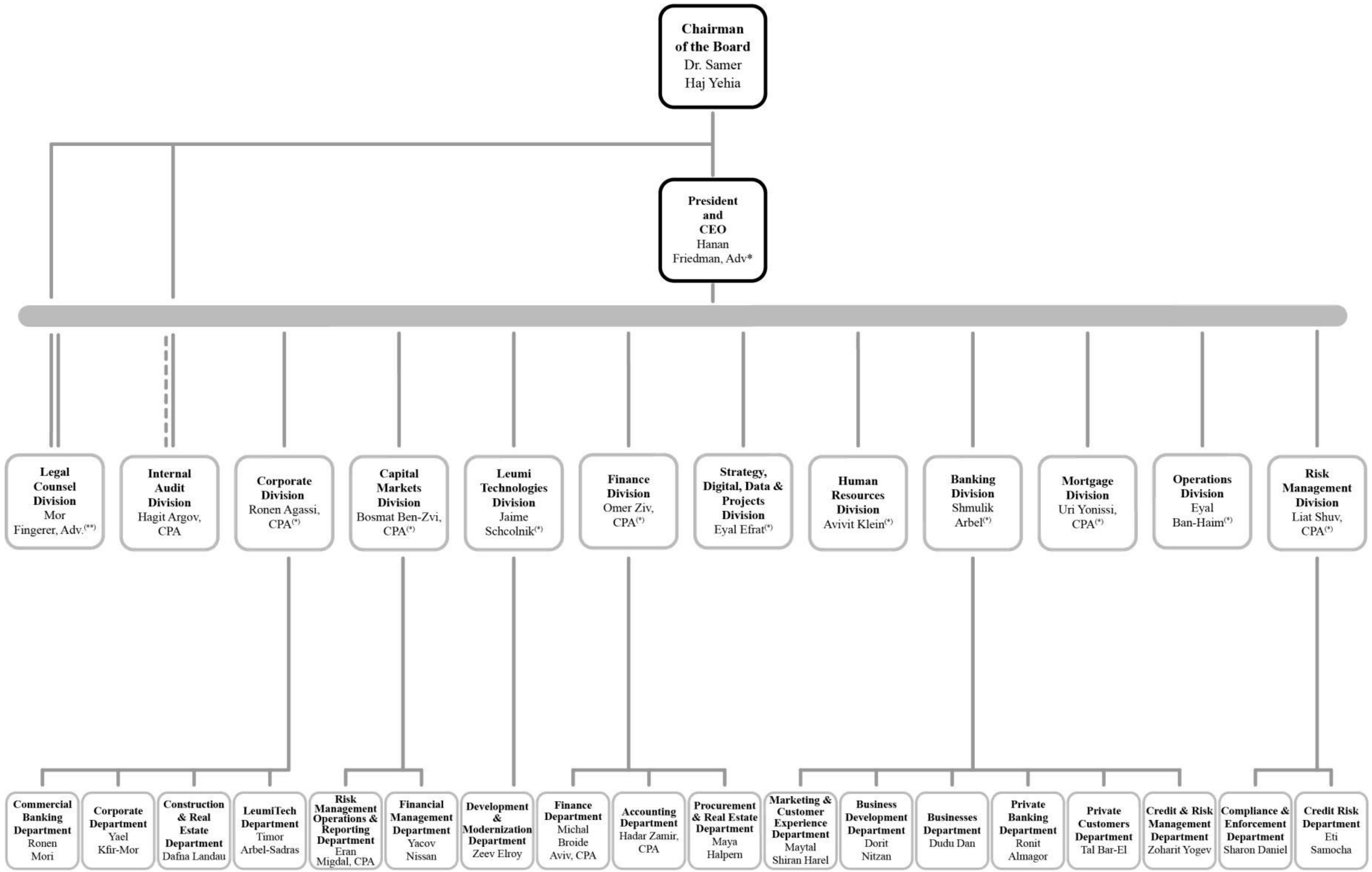
Resolution of the labor dispute

On August 1 2021, the Bank received a notice regarding a declared labor dispute, at the request of the Bank Workers' Union, by the New Federation of Workers - Histradrut Hamaof, under the Labor Dispute Settlement Law, 1957. After settling the issue which was the subject matter of the notice, the Histradrut Hamaof announce on February 24 2022 that the dispute had been resolved.

Hybrid work plan

On August 15 2021, the Bank instituted a hybrid work plan allowing employees to work remotely on day a week. On February 9 2022, a memorandum of understanding was signed between management and the Workers' Union, in which the parties reached agreements in principle for a permanent plan wherein employees will be allowed to telecommute one day a week, as of February 13 2022.

Bank Leumi le-Israel B.M
Corporate Structure



* Member of management.
** Member of management who also serves as Secretary of the Bank and Group.

Legal Proceedings

1. The Bank is party to legal proceedings, including motions to approve derivative claims and motions to approve class actions, brought against the Bank by customers (including former customers) and various third parties, who allege to have been damaged or harmed as a result of the Bank's activity in the ordinary course of its business. In the opinion of the Bank's management, based on legal opinions, appropriate provisions have been made in the financial statements to cover potential damages in respect of all the claims.

   The claims lodged against the Bank have numerous and varied grounds, including claims as to non-execution or late execution of instructions, motions to approve attachments imposed by third parties on debtors' assets which are allegedly held by the Bank, claims that the interest rate charged is not in accordance with the ones agreed upon between the Bank and the customer, interest rates higher than those permitted by law, claims regarding fees and commissions charged, claims associated with securities, labor relations, violation of privacy, drawing of checks with insufficient funds, and failure to cash checks.

   For more information regarding claims filed against the Bank in material amounts, please see Note 26.

2. As part of measures taken to recover debts in the ordinary course of its business, the Bank takes, among other things, legal action against debtors and guarantors, and also pursues collateral realization proceedings. The Bank has included in the financial statements provisions for loan losses based on an assessment of all the risks associated the extension of loans to the various sectors of the economy and taking into account the extent of information available on the relevant debtor or guarantor with regard to their financial stability and the collaterals provided to the Bank to secure the repayment of the debt.

Material Agreements

1. ### Maalot-Standard Agreement

   In accordance with an agreement dated March 29 2020, Standard has assigned Veritas Insurance Agency Ltd. of the Harel Group, as of April 1 2020, the full rights and commitments of Standard under the Maalot-Standard Agreement, subject to the completion of the merger of Standard into Harel. The merger was completed on July 2 2020.

   Under an agreement from September 2021, the Maalot Standard agreement was extended. In addition, Veritas Insurance Agency assigned to Harel Insurance Company Ltd., as of August 29 2021, its undertakings related to Maalot in respect of sale and marketing of Harel's insurance policies to potential customers.

   For more information about the Maalot-Standard Agreement, please see the section entitled "Material Agreements" in the 2019 Annual Financial Statements.
   For more information regarding the assignment of rights from Standard to Veritas, please see the section entitled "Material Agreements" in the 2020 Annual Financial Statements.

2. ### IT and Operational Services Agreement with Union Bank of Israel Ltd.

   The Bank reached an understanding with Union Bank of Israel Ltd. on the extension of the engagement term for IT and Operational Services Agreement (hereinafter - the "Agreement"), altering some of the terms and conditions of the engagement.

   In this framework, it was agreed, inter alia, that subject to, and in accordance with the terms and conditions detailed in writing in the addendum to the Agreement (hereinafter: the "Addendum"), the Agreement will be extended until December 31 2022.

   The scope of the ongoing services and the service level provided by Leumi according to the Addendum will be the same as the ongoing services and the service level which were provided to Union Bank as of December 31 2016, and Leumi will provide Union Bank with ongoing services in the Addendum term according to the "follow me" principle. In addition, an adjustment was made to the consideration paid in the framework of the agreement.

   For more information, please see the immediate report published by the Bank on May 12 2020 (Ref. No. 2020-01-047130) and on May 26 2020 (Ref. No. 2020-01-052887).

3. The Binat agreement

In 2020, an agreement was signed with Binat Data Communications to host Leumi's data center in Binat's site at Har Hotzvim, Jerusalem. The agreement is for 10 years, with an option for two additional 5-year periods. The Bank shall have the right to terminate the agreement after the first 5 years, at any time (including during the option periods), after giving early notice thereof.

4. The Bank granted officers and others letters of indemnification. For more information, please see Note 26F.

5. For information regarding agreements relating to the Bank's subsidiaries, please see Note 36 and the section entitled "Major Investee Companies" in the Report of the Board of Directors and Management.

6. For information regarding agreements with the Tax Authority, please see Note 8.

Laws and Regulations Governing the Banking System

Some of the information in this section constitutes forward-looking information. For the meaning and implications of the term, please see the section entitled "Forward-Looking Information".

During the reporting period, several proposals for regulatory amendments and changes to various legal provisions were published, which could have an impact on the characteristics, scope and profitability of some of the Group's activities and on the credit, operating and legal risks to which it is exposed. Some of the directives are at various stages of discussion and, consequently, it is impossible to assess whether or not they will be issued as binding provisions and, if issued, what the ultimate provisions will be. As a result, at this stage, it is impossible to assess the effect of these provisions on the Group's overall activity, if any. The following section provides detailed information on newly enacted legislation, which came into effect during the reporting period and provisions expected to come into force which may have a significant effect on the Bank.

Directives Issued by the Banking Supervision Department

Proper Conduct of Banking Business Directive 311A, Consumer Credit Management

On February 4 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive, Management of Consumer Credit.

The directive offers a summary of the Banking Supervision Department's requirements from the banking system regarding activity with consumers, inter alia covering the following topics: maintaining an adequate organizational culture; policy and processes in place to ensure adequate and fair credit marketing processes, especially ones for proactive marketing of credit; as well as having credit approval processes, inter alia, the obligation to provide credit that is in line with the borrower's financial ability to repay the loan.

At the same time, the Capital Market, Insurance and Savings Authority published a directive that applies to some of its regulated entities, in an effort to set consistent principles and standards for the various credit providers.

Amendment to Proper Conduct of Banking Business Directive No. 336, Pledging the Assets of a Banking Corporation

The amendment was published on June 16 2021 following the increase in volume and variety of activities in respect of which banking corporations are required to pledge assets, as a result of the implementation of various global regulatory reforms.

The amendment revoked the current quantitative restriction on pledging assets of a banking corporation. Alternatively, the directive defined requirements for proper management of asset pledging.

The directive became effective as at January 1 2022.

Amendment to Proper Conduct of Banking Business Directive No. 222, "Stable Funding Ratio"

Please see the section entitled Liquidity Risk in the Report of the Board of Directors and Management.

Proper Conduct of Banking Business Directives 203A, 208A and 218 - directives pertaining to the attribution of capital for derivative financial instruments

Please see the section entitled "Capital and Capital Adequacy" in the Report of the Board of Directors and Management.

Amendment to Proper Conduct of Banking Business Directive No. 420, "Sending Notices via Means of Communications"

On June 6 2021 the Banking Supervision Department published an amended Proper Conduct of Banking Business Directive No. 420 - "Sending Notices via Means of Communications". The amendment was initiated against the backdrop of the technological revolution taking place in the banking industry in recent years, which allows banking corporations in Israel to develop services that include a variety of channels for obtaining banking services and information. The main point of the amendment is that a banking corporation should select the most appropriate means of communication to deliver a specific message to a customer who has joined the e-banking notices service. Selecting the appropriate communications channel for sending the notice will be according to the materiality level of the information and the speed at which it should be delivered. The amendment to the directive will enter into force one year after its publication.

In tandem with the said publication, the Banking Supervision Department published a letter entitled “Improving the Effectiveness of Disclosure in Notifications to Customers”. In the letter, the Banking Supervision Department clarifies that, as part of the preparations for the implementation of the said amendment to Directive No. 420, banking corporations shall examine the need to improve the disclosure provided to customers, so as to increase the understandability and effectiveness of the notices sent to them.

The Bank is preparing to implement the directives.

Proper Conduct of Banking Business Directive 250A regarding the LIBOR transition

On October 3 2021, the Banking Supervision Department published a new Proper Conduct of Banking Business Directive, LIBOR Transition. The directive was published on the back of the anticipated discontinuation of the LIBOR. The directive outlines principles for implementing the transition from LIBOR to alternative base interest rates, in order to ensure proper preparation, while addressing the potential risks embodied in the transition. In addition, the directive addresses aspects of fairness and disclosure required vis-a-vis customers. The directive refers both to existing agreements and new ones.

The directive entered into force two weeks after its publication (excluding a few sections, the effective date of which is later) and shall remain in force until December 31 2023.

The Bank is implementing the transitional provisions from LIBOR, as required by the directive.

Amendment to Proper Conduct of Banking Business Directive No. 451 - Housing loans procedures

On January 31 2022, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 451. Among other things, under the amendment, banking corporations will be obliged to provide customers with pre-approval for loans using a uniform format, which will include three uniform tracks prescribed by the Bank of Israel, with the loan term selected by the customer. Each of the tracks will feature: the expected overall interest rate, the total expected payments across the entire mortgage term, and the highest expected monthly payment. In addition and regardless of the uniform baskets, banks will be able to offer customers customized mortgage tracks.

In addition, according to the amendment, banks will provide customers with an online calculator allowing for simulations of various mixes with different loan terms. In addition, the directive regulates the manner in which banking corporations are required to present information in their apps.

A maximum time frame was provided for pre-approval of mortgages to customers; the directive allows customers to submit an application and be pre-approved online and by phone.

The directive will come into force on August 31 2022. The Bank may apply the directive in whole or in part prior to this date.

The directive’s implementation will require an update of the work processes.

For more information, please see the section entitled "Risks in the housing loan portfolio" in the Report of the Board of Directors and Management.

Amendment to Proper Conduct of Banking Business Directive No. 312, A Banking Corporation’s Business with Related Parties

The amendment was published on January 31 2022, with the aim of mitigating the regulatory burden and simplifying some of the directive’s sections, in order to render their implementation easier for banking corporations.

Under the amendment, the definition of a “related party” was amended, and a requirement was added whereby the Audit Committee shall: (1) recommend to the Board of Directors a policy and processes to approve related party transactions; (2) address the indebtedness threshold of an interested party for which the approval of the Audit Committee is required; (3) set criteria for applying related party restrictions even on parties not included in the “related party” definition, if it deems it necessary; (4) address ongoing monitoring, control, reporting and follow-up procedures for related party transactions that do not require documented approval by the Audit Committee.

The section determining which transactions require approval by the Audit Committee was revised as well, and the requirement to discuss any transaction made between the interested party and the Bank prior to becoming any interested party was extended.

The requirement to report to the Banking Supervision Department was also extended, applying to any deviation from the provisions of the directive.

The directive will enter into force on July 1 2022.

The Bank is preparing to update the work procedures as needed.

Various Initiatives for Increasing Competition

Recently, special emphasis has been placed on regulation to encourage competition in various segments pertaining to the banking system's areas of activity. This trend is reflected in various directives and legislative initiatives, inter alia in directives relating to transfer and sharing of information available to banks with banking and non-banking entities, directives aimed at easing transition between banks, directives aimed at helping customers compare various financial products and services, as well as directives aimed at promoting competition in the payments domain.

In this context, the following topics may be mentioned:

Provision of access for banking information

1. Amendment of Proper Conduct of Banking Business Directive No. 368, "Application of the Open Banking Standard in Israel"

   The directive was first published in February 2020. Open Banking requires the banks and credit card companies to share a customer's banking information at his/her request, with authorized third-party providers and to allow making payments from his/her account through third parties (regulated for this purpose). The objective is that based on the said banking information, third-party suppliers will be able to offer customers new products, customized to their needs. According to the directive, the adoption of the Open Banking will encourage new players to enter the market in the payments, information, marketing and intermediation domains, offering customers better pricing and innovative products. In April 2020, the effective dates of the directive were postponed by three months, with the effective date of the first phase set for March 31 2021.

   On April 5 2021, due to issues arising from the complexity of the directive's implementation, the directive was amended once again. The amendment mainly focuses on the postponement of the various phases of the directive. According to the amendment, the effective date of the first phase was postponed to April 18 2021 as were the effective dates of other implementation phases, as outlined in the directive.

   On January 18 2022, the Banking Supervision Department published an additional amendment to the directive, in which the effective dates prescribed by the directive were delayed, inter alia due to the publication of the Financial Information Service Law, 2021, as follows: information about credit, savings and deposits - delayed until October 31 2022; and information about debit card, debit card balances, debit card activity, as well as making payments - deferred until March 31 2022.

   On February 23, an additional draft amendment to the directive was published, focusing on adjustment of the directive to arrangements provided for under the Financial Information Service Law, 2021.

   The Bank is preparing to implement the directive gradually, in accordance with the effective dates therein.

2. Financial Information Service Law, 2021

   On November 18 2021, the law was published in the Official Gazette. The law is meant to replace portions of the Supervision of Financial Services (Regulated Financial Services) Law, 2016, which relate to the service of comparing financial costs by a new law, which will regulate all the information included in providing financial activity services both by the entities providing the service and the financial entities which hold financial information of customers. The law allows financial information service providers to receive, with the customer's agreement, online access to financial information about the customer from financial information sources - (at this stage: banks, acquirers - including those acting as issuers (credit card companies), affiliate corporations as well as institutional entities, licensed to provide deposit and credit services, credit provider licensees and licensees to operate credit intermediary services), in order to provide various services. At the same time, the law requires such information sources to allow financial information service providers online access to customers' financial information, subject to the customers' agreement. A financial information service provider shall not obtain financial information collected by another and shall not make use of the information unless for the purpose of providing service to a customer regarding his/her financial conduct, including: summary of financial information for the customer; cost comparison; brokerage; advice regarding financial conduct; and an offer to the customer by the service provider. The purpose of the law is to break down the basket of financial services, boost comparability between various financial providers for customers, reduce information gaps among various financial providers regarding the unique characteristics of customers and allow customers to obtain a full snapshot of their financial position in real time, at the click of a button. The purpose of the above is to remove competitive barriers in the industry and render financial services in Israel more efficient.

Additional issues regarding increasing competition

Transfer of Financial Activity of a Customer from Bank to Bank

On July 1 2021, Banking Rules (Service to Customers) (Transfer of Financial Activity of a Customer from Bank to Bank) (Amendment), 2021 was published. On July 12 2021, a bill entitled "Responsibility of the Receiving Bank to Transfer a Customer's Financial Activity" was published, as was Amendment to Electronic Clearing of Checks (Scanning, Saving and Producing an Output of an Automated Check), which regulates the manner of handling checks in an account that is in the process of being transferred from one bank to another. Moreover, on August 19 2021, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 448, regulating customers' online transitioning between banks, as well as Reporting to the Banking Supervision Department Directive No. 844, "Reporting on Transition between Banks", which was aimed at assisting the Banking Supervision Department in examining the scope of activity and trend shifts in light of the Transition between Banks Project.

The directives constitute yet another step towards the application of Section 5B1 to the Banking Law (Customer Service), 1981, according to which banks are required to allow customers wishing to transition to another bank, to do so online, easily, securely and free of charge.

Proper Conduct of Banking Business Directive No. 460 - Presentation of Transaction Data in Securities Deposits

On December 26 2021, the Banking Supervision Department - in cooperation with the Israel Securities Authority - published a directive prescribing a uniform format for presenting information and data to customers regarding their securities deposits with banks.

In this context, customers will be provided with information regarding the return on their securities deposits, assets included therein, as well as disclosure regarding deposit activity, as well as fees and commissions.

Setting a clear and uniform framework for presenting the data is aimed at improving understandability and comparability by the customer, and improving his/her ability to made educated decisions regarding the best investment channels for them, while examining other investment alternatives.

The directive will become effective no later than January 1 2023. The first report will be for the first quarter ending on March 31 2023.

The Bank is preparing to implement the directive.

Memorandum of Law Regulation of Payments Services, 2022

The memorandum of law, which was published on January 10 2022, seeks to pass into law the regulation of payments services provided by non-banking entities. These services - the provision of which will require a license and regulation by the Israel Securities Authority, include: initiating payments; giving payment orders; clearing payments; issuing means of payment; transferring funds to a beneficiary without having a payments account; and management of a payments account allowing for transfer of payments for products and services. The regulation is expected to encourage competition in the market by allowing non-banking entities to enter the domain and develop alongside the incumbent banking players.

The Bank of Israel's position regarding developments in the payments and digital wallet domain

In a notice published January 11 2022, the Bank of Israel clarifies that it believes that information created and collected by various financial entities regarding customers belongs to the customers, who are thus entitled to decide which entities will be privy to that information and what uses will be made thereof. Under this approach, the Bank of Israel believes that financial entities may be given the opportunity to make use of information they receive at the consent of their customers, for the uses sanctioned by the customers, subject to any law. According to the Bank of Israel, information created using banking payments apps is of competitive value when it comes to information about payments for purchasing products and services from merchants. Promoting access to this type of information is expected to reduce the dominance of the incumbents.

According to the notice, the Bank of Israel believes the market and players should be encouraged to create infrastructure in the form of a database that will allow the transfer of funds and making of payments between apps and payment accounts of various kinds, with the database being able to link mobile phone numbers (or other identifiers such as an email address) to the details of the means of payment of the payee (such as a payment account). Such a database will contribute to the development of the market in general and to the competition in particular, will streamline the ability of incumbents to offer additional services to their customers and allow new players to enter the market and offer innovative, advanced customer experiences relatively easily, potentially interfacing with numerous prospects.

These amendments linked to increased competition, along with initiatives led by the Bank of Israel, such as: launching the Central Credit Register, which was launched in April 2019 and will enable various entities to obtain credit statements and reports for their current and potential customers; encouraging the banking system to increase efficiency; and the reform regulating customers' transfer from one bank to another through direct channels, are expected to affect the Israeli banking system in the coming years.

Regulatory Developments Following the Coronavirus

Against the backdrop of the unfolding coronavirus event and its ramifications on the Israeli and global economies, as well as on households and businesses, the Banking Supervision Department and other regulators have set a series of regulatory measures in an effort to assist households and businesses to overcome this period, while allowing banking corporations to be more flexible in their business conduct.

The said measures focused, among other things, on continuing to provide banking services to the public, with emphasis on transitioning to the various digital channels, providing services without the need for customers to reach the Bank's branches and making adjustments for working remotely; providing various easements to the banks to allow them to function property even when not fully staffed; requiring the banks to assist the economy in overcoming the crisis through debt restructuring, increasing available credit and pricing loans fairly.

In December 2021, the Banking Supervision Department announced that since the economy is back to normal, the need for providing easements to banking corporations' banking activities has subsided; therefore, as of January 1 2022, most temporary orders enacted following the coronavirus have expired, excluding specific provisions which are due to expire at a later date.

Following are the highlights of the regulatory adjustments following the coronavirus, which are in effect as of the Report's publication date:

The Insolvency and Economic Rehabilitation Law (Amendment No. 4 - Temporary Order) (Novel Coronavirus) (Stay of Proceedings for Formulation and Approval of Debt Settlement), 2021

The Law prescribes a dedicated track for handling debts of debtors (corporations and private individuals) hurt by the coronavirus crisis, which will be in effect until March 18 2022, and allow debtors to reach debt settlement agreements as an alternative to full insolvency proceedings. The temporary settlement allows to stay legal proceedings and collections proceedings against a debtor. During the stay period, the debtor will retain control of his/her assets. At the same time, the proposed arrangement includes respective alternative protections to lenders.

On January 24 2022, a draft of the Insolvency and Economic Rehabilitation Ordinance (Extension of the Period Pertinent to Filing a Stay of Proceedings to Formulate a Debt Settlement Agreement - the Novel Coronavirus), 2022 was published; the draft ordinance proposes to extend by six additional months the said special provisions, until September 17 2022.

Memorandum of The Execution Law (Novel Coronavirus - Amendment No. 70 and Temporary Order) (Novel Coronavirus), 2022

The bill seeks to extend, by an additional period, the temporary order provided under the Execution Law (Novel Coronavirus - Amendment No. 68 and Temporary Order), 2020 (hereinafter - the "Temporary Order"). The Temporary Order, which was enacted following the onset of the coronavirus, set various arrangements aimed at incentivizing debt repayment and recovery of economic activity, as well as helping people in financial straits to avoid deteriorating into a severe and enduring financial crisis. In this context, arrangements were established regarding authorizing court registrars to consolidate claims; extension of warning periods for executing judgments or filing objections to promissory notes and claims for a set amount; establishing a special payments arrangement; as well as establishing specific provisions regarding fees and attorney's fees for execution motions. Since most of these provisions expire on March 24 2022, it is proposed by extend the Temporary Order by additional periods.

Amendment to Proper Conduct of Banking Business Directive No. 250 - Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis

The directive was first published in March 2020 as a temporary order, on the back of the development of the coronavirus event, and included a series of measures and adjustments designed to allow banking corporations the business flexibility needed during this period. The directive was revised several times. In December 2021, the Banking Supervision Department announced that, as of January 1 2022, the temporary order will have expired, excluding specific provisions which are due to expire at a later date. In addition, it was decided to revise relevant Proper Conduct of Banking Business Directives, and to set specific adjustments provided in the temporary order as permanent. However, on January 18 2022, due to the spread of the coronavirus and in order to allow for continuity of banking services while safeguarding the health of the public and Bank employees, it was decided not to revoke the temporary order but rather to update it.

Following is a breakdown of the adjustments that are in effect and the adjustments incorporated into the Proper Conduct of Banking Business Directives on a permanent basis, as of the report's publication date:

- Dividend distribution - when deciding to distribute a dividend, the Bank is required to exercise caution in assessing the business model and to take into account the remaining uncertainty in the markets, due, among other things, to new virus mutations.

  In this context, it is clarified that in respect of dividend distribution in the second and third quarters of 2021, the guidance of the Banking Supervision Department which was then in force required the Bank to adopt a prudent, conservative approach to dividend distribution or share buybacks. In addition, the Banking Supervision Department clarified that a distribution that is higher than 30 percent of the net income for 2020 will not be considered prudent and conservative capital planning.

- Proper Conduct of Banking Business Directive No. 201, "Measurement and Capital Adequacy" - the minimum capital targets will be reduced by one percentage point, as follows:

  - The CET1 capital ratio to risk-weighted assets shall not fall below 8 percent (prior to the amendment - 9 percent). A banking corporation whose total consolidated assets constitute 24 percent or more of the Israeli banking sector's total assets shall have a CET1 capital to risk-weighted asset ratio of no less than 9 percent (prior to amendment - 10 percent).

  - The total capital to risk-weighted asset ratio shall not fall below 11.5 percent (prior to the amendment - 12.5 percent). A banking corporation whose total consolidated assets constitute 24 percent or more of the Israeli banking sector's total assets shall have a total capital to risk-weighted asset ratio of no less than 12.5 percent (prior to amendment - 13.5 percent).

  The easement will be in effect until December 31 2023, provided that the capital ratios will not fall below the lower of: the capital ratios as at December 31 2021 or the minimum capital ratios applicable to the banking corporation prior to the temporary order. A reduction of up to 0.3 percentage points in the period up to June 30 2022 shall not be deemed a deviation therefrom. The above is subject to meticulous and conservative capital planning and to reporting to the Banking Supervision Department.

- Proper Conduct of Banking Business Directive No. 218 - Leverage Ratio - Reducing the requirement for a minimum rate of 4.5 percent, on a consolidated basis. And in a banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets - 5.5 percent.

  The easement will be in effect until December 31 2023, provided that the leverage ratio will not fall below the lower of: the ratio as at June 30 2022 or the leverage ratio required of a banking corporation prior to the temporary order. Using the easement will not prevent the distribution of dividends, subject to capital planning aimed at reverting to the required leverage ratio.

- Amendment to Proper Conduct of Banking Business Directive No. 301 - The Board of Directors - Section 41(c) was added, according to which participation in a meeting through advanced means of communications (i.e., means allowing all participants in a meeting to see and hear each other simultaneously) shall be deemed physical presence, provided the percentage of meetings in which such participation was made will not exceed 25 percent of the number of meetings held each year for each director.

- Proper Conduct of Banking Business Directive No. 311 - Credit Risk Management - according to Section 27A of the original directive, when approving credit for a corporation, a bank must rely, inter alia, on up-to-date financial data, including up-to-date financial statements and additional financial data from other sources. Up-to-date financial statements are financial statements filed up to nine months from the reporting date.

  According to the amendment, the financial statements will be deemed up-to-date if filed up to 11 months from the reporting date, and if the borrower is a small- or micro business - if filed up to 14 months from the reporting date.

  The easement is effective until February 28 2022. In other words, the easement is effectively applicable to the 2020 financial statements.

- Proper Conduct of Banking Business Directive No. 367, E-Banking and Proper Conduct of Banking Business Directive No. 420 - Sending Notices via Means of Communications - the following sections were stricken by a temporary order: a) the Bank may send to customers notices through digital channels offering them to subscribe to digital banking services and instructing them how to do so; (b) that the Bank may send through e-banking channels, to customers who do not have a debit card issued by that banking corporation, notices offering them to have a debit card issued to them.

  According to the explanatory notes, the stricken sections shall not prevent the banking corporation from continuing to follow the section even in routine times.

- Amendment to Proper Conduct of Banking Business Directive No. 315 - Limit on Industry Indebtedness - the easement allows to increase the credit extended to the real estate construction and manufacturing industry and trade in construction products, such that the total credit (less indebtedness to the national infrastructure) would increase from 20 percent to a rate of 22 percent of total indebtedness by the public, and the total indebtedness by the public to the banking corporation will not exceed 26 percent (in lieu of 24 percent).

  The easement will be in effect for a period of up to 24 months as of December 31 2025, provided that the rate of indebtedness shall not exceed the higher of: the rate as at December 31 2025 or the rate of the industry-specific restriction prior to the easement.

- Amendment to Proper Conduct of Banking Business Directive No. 329, Limitations on Issuing Housing Loans - it was clarified that to calculate the said capital requirement according to Proper Conduct of Banking Business Directive No. 201, a banking corporation is required to increase its Common Equity Tier 1 capital target by a rate which reflects 1 percent of the outstanding housing loans that are for the purpose of funding rights in land. The significance of the amendment is that the additional capital requirement shall not be applicable to all-purpose loans. However, the re-extension of all-purpose loans for which capital of 1 percent was previously retained will also require the allocation of capital at the rate of 1 percent.

- Amendment to Proper Conduct of Banking Business Directive No. 439 - Debits by Authorization - the following requirement was revoked - to notify regarding the cancelation of a debit or the revocation of an authorization in writing. The amendment is in line with the Payment Services Law, which did not limit the manner of notification of a cancelation.

- On January 18 2022, the Banking Supervision Department issued an additional amendment to the directive, against the backdrop of mounting morbidity and infection rates. Under the amendment, Proper Conduct of Banking Business Directive No. 355, Business Continuity Management, was updated so as to allow banks to reduce the number of branches open to the public, provided their rate does not fall below 80 percent of the bank's total number of branches. In addition, the banks may require customers to schedule appointments, subject to the principles set forth in the directive.

The Banking Supervision Department's letter on assisting borrowers, following restrictions imposed due to the "fifth surge"

On December 29 2021, the Banking Supervision Department published a letter, in which it specified that due to the growing understanding whereby the coronavirus appears to be an ongoing, enduring event, the Banking Supervision Department is encouraging banking corporations to continue at this time to proactively and prudently stabilize borrowers who do not meet, or may not meet, their contractual payment obligations due to restrictions imposed due to the "fifth surge" (such as tour guides, travel agencies, transportation companies and hotels, most of whose business is based on incoming travel). Such activity may be carried out using the banking corporations' own resources and/or through the state-backed loan fund.

A notice regarding an overall permit to have employees work overtime (Temporary Order - Coping with the Novel Coronavirus), 2019

On January 16 2022, the Minister of Economy and Industry issued a notice under the Work and Rest Hours Law, 1951, under which a temporary permit was given allowing employers to have employees work overtime. Under the permit: (1) A worker will not be employed more than 67 hours per work week; (2) The maximum overtime per month shall not exceed 90 hours; (3) Employees may work up to 14 hours per day (including overtime) up to 8 times per month; (4) Employers will take into account the special needs of the workplace and the employees' wellbeing, safety and needs, following the surge of the Omicron variant of the coronavirus.

The permit expires on February 14 2022.

The Order for Increasing Competition and Reducing Concentration in the Banking Industry in Israel for Minimizing Market Centralization and Promoting Economic Competition (Legal Amendments) (Change of Rate and Amounts of Credit Facilities in accordance with Section 9(c) to the Law), 2022

On January 31 2017, the Law on Minimizing Market Centralization and Promoting Economic Competition (Legislative Amendments), 2017 was published in the Official Gazette (hereinafter - the "Law"). Pursuant to the law, from January 31 2021 to January 31 2024, the total credit limits on the credit cards of customers of a bank with extensive activity (as defined by the Law), which issues debit cards, each year, shall not exceed 50 percent of the total credit limits on the credit cards of the bank's customers as was the case in 2015; when calculating the total credit limits, credit limits higher than NIS 5,000 will be taken into account. Following the spread of the coronavirus and the deterioration in many households' economic situation, in November 2020, the Minister of Finance issued an ordinance for a limited period of one year, which reduced the reduction rate; pursuant to the ordinance: (1) the total credit limits on the credit cards of customers of a bank with extensive activity which issues debit cards, each year, shall not exceed 55 percent of the total credit limits on the credit cards of the bank's customers as was the case in 2015 (in lieu of 50 percent); (2) When calculating the total credit limits, credit limits higher than NIS 7,500 (in lieu of NIS 5,000) will be taken into account. Due to the continued impacts of the coronavirus crisis, the said ordinance was extended on January 31 2022 by an additional year. In addition, according to the ordinance, on the following year, the total credit limits on the credit cards of customers of a bank with extensive activity which issues debit cards, each year, shall not exceed 51 percent of the total credit limits on the credit cards of the bank's customers as was the case in 2015; when calculating the total credit limits, credit limits higher than NIS 8,500 will be taken into account.

The effect of the various adjustments due to the coronavirus is part of the overall effect of the event on the Bank and Group as detailed in this Report.

Additional Topics

Privacy protection

There has been a trend of increased regulation in the area of privacy protection, both in Israel and around the world. On March 25 2021, following a sharp rise in severe information security incidents, the Privacy Protection Authority published an additional policy paper aimed at reducing the personal information stored in databases of various organizations. In the paper, the Authority provides recommendations and focal points for Israeli businesses and public entities on how to reduce the collection, storage and use of excess information. According to the Authority, failure to reduce the excess information by an owner of a database who has become aware that such information is stored in its database, may - under certain circumstances - give rise to a breach of the Privacy Protection Regulations (Information Security).

In addition, on April 22, 2021, the Privacy Protection Authority published a paper regarding privacy in advanced payment means for transferring funds and payments to merchants. The Authority's paper places special emphasis on obtaining consent for subscription to, and use of, all aspects of advanced means of payments, in order to enable users to control the privacy of their information in an optimal manner and ensure that their information will be used at their knowledge and subject to their full consent.

On May 25 2021, the Privacy Protection Authority published an opinion for public comment, in which it clarifies and illustrates what constitutes "information" and "knowledge of a person's private affairs" within their meaning in the Privacy Protection Law, as well as the types of data to which the provisions of the said law applies in accordance with the interpretation given to them by the courts.

Implementation of the various provisions in this area will require the Bank to implement changes in work processes.

Environmental, social and governance (ESG)

Public disclosure on ESG aspects

Lately, there is a growing understanding, both in Israel and abroad, that the materialization of environmental risks will adversely affect the economy and undermine the stability of the banks and financial system. Accordingly, regulators in Israel and across the world require banks to prepare to risk-manage this issue. As part of the measures taken by the Banking Supervision Department to boost the banking system's contribution to the environment and society - thus strengthening the banking system and the Israeli economy for the long term, and due to experience accumulated by the banking system in Israel and in banks worldwide on ESG disclosures, on December 5 2021, the Banking Supervision Department published a Reporting to the Public Directive regarding disclosure on aspects of Environmental, Social and Governance (ESG).

Under the directive, banking corporations are required, among other things, to extend their disclosure to the public on their exposure to environmental risks, including climate-related risks, and to publish annual ESG reports. Banking corporations are required to apply the directives as of the 2021 reports.

For more information, please see section entitled "General Review, Goals and Strategy" as well as the section entitled "Environmental risk" in the Report of the Board of Directors and Management.

Amendment to Proper Conduct of Banking Business Directive No. 301 - Board of Directors

On January 18 2022 the Banking Supervision Department published an amendment to the directive, requiring banks' boards of directors to ensure proper representation of both genders. To this end, the board of directors shall set a policy prescribing gender diversity rates, including deadlines for achieving the target and milestones.

A banking corporation is required to report to the Banking Supervision Department if - due to various circumstances (such as replacing a director, changing the number of directors, etc.), the composition of the board is lower than the minimum gender diversity rate prescribed by the board's policy.

Effective date - the gender diversity rate will be set within six months of the circular's publication date, and the target will be achieved within three years of the policy's approval date.

The Bank is preparing to implement the directive.

The BCBS/IOSCO regarding initial margins (IM) for non-centrally cleared derivatives

The IM reform set by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) requires the deposit of primary collateral for non-centrally cleared derivatives (OTC derivatives).

The reform went into effect gradually since September 2016, and became effective on September 1 2021 for corporations with a total average of said derivatives exceeding EUR 50 billion according to European regulation or USD 50 billion according to the US regulation (including the Bank) (Phase 5).

The reform applies to Leumi's business with foreign financial institutions, requires the Bank to post primary collateral as aforesaid (subject to a threshold of EUR 50 million in Europe and USD 50 million in the US vis a vis a specific counterparty), by pledging a securities account with a foreign custodian by each party, in trust, for the other party.

Taxation

Tax rate

The taxes applicable to banking corporations' profit include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below is a table of the statutory tax rates applicable to banking corporations from 2018 onwards:

- Corporate tax rate - 23.00 percent.
- Profit tax rate - 17.00 percent.
- Total tax rate - 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

Credit Ratings

Credit ratings and outlook for the State of Israel and the Bank as at March 8 2022:

	Rating agency	Long term	Outlook	Short term
State of Israel	Moody's	A1	stable	P-1
	S&P	AA-	stable	A-1+
	Fitch	A+	stable	F1+
Bank Leumi: Foreign exchange	Moody's	A2	stable	P-1
	S&P	A	stable	A-1
	Fitch	A	stable	F1+
Local rating (in Israel)	S&P Maalot	AAA	stable	
	Midroog	Aaa	stable	P-1

Following is the development of the Bank's credit rating and credit outlook from January 1 2021 to March 8 2022:

On January 20 2021, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On February 16 2021, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On July 20 2021, credit rating agency S&P reiterated the Bank's rating and rating outlook

On July 20 2021, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On October 6 2021, credit rating agency Midroog reiterated the Bank's rating and rating outlook.

On January 12 2022, credit rating agency Fitch reiterated the Bank's rating and rating outlook.

On January 20 2022, credit rating agency S&P reiterated the Bank's rating and rating outlook

On January 23 2022, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

Main Operating Segments According to Management Approach - Additional Information

A. Management Approach – Retail Banking Segment

General

The retail banking segment is characterized by offering value propositions and financial services to households and private individuals, small businesses and wealthy customers in Israel and worldwide (Private Banking). These offers and services are provided to customers according to their changing needs and preferences and in accordance with other relevant characteristics.

Structure and characteristics of the segment

Branches:

Households and small businesses – extensive deployment of 186 branches and service centers nationwide. At the branches, services to customers are rendered by teams of Bank’s representatives grouped according to customer segments. These teams handle all dealings related to customers and specialize in dealing with specific customer characteristics and needs.

Private Banking customers - In Israel, this segment is run through five unique Private Banking centers deployed nationwide – in Tel Aviv, Jerusalem, Haifa and Herzliya Pituach. The centers serve Israeli and nonresident high-net-worth private customers. Bank representatives in these centers are familiar with the customers' needs, preferences and areas of interest. Furthermore, the department has four designated branches for customers who hold investment portfolios ranging from NIS 3.5 million and NIS 8 million; these branches are located in Haifa, Rehovot, Tel Aviv and Herzliya.

Direct and digital channels:

Banking services are also provided through Leumi’s website, the Leumi Digital mobile app, Leumi’s call centers, Leumi Personal call centers, consulting centers, Leumi’s banking terminals and other advanced internet and mobile solutions.

In 2021, 72 percent of the customers performed transactions on digital channels and used Leumi's website or the Leumi Digital app.

Among other things, the segment works towards increasing the number of customers who use the services of Leumi’s call centers and digital channels (thousands of transactions are carried out every day through the Bank’s website and mobile app).

Banking app Pepper, which is a mobile-only bank account, enables its customers to better manage their money. using advanced technology and customized user experience.

For more information regarding Pepper banking app, please see the section entitled Business Goals and Strategy.

Developments in the segment’s markets and customer characteristics

The segment is affected by demographic and economic changes which have taken place in Israel, as well as by changes in private consumption and customers' savings habits.

The competition in the segment is intensifying. In recent years, there have been new entrants (financial and other entities) trying to muscle their way into the retail banking market; these new entrants mainly include credit card companies (operating in the field of consumer loans), insurance companies, retail chains and technology-based financial ventures. Some of the new entrants are entities which are not regulated by the Bank of Israel or by any other authority and which do not operate under the restrictions applicable to banks.

Services and products

The Bank has defined small and medium businesses as a focal point for the development of its business. Accordingly, the Bank has launched the Leumi business platform, comprising exclusive and innovative tools and services.

Private loans: The Bank offers its customers various loan products which suit their needs at various stages of their lives. The leverage level of Israeli households is low compared with other developed countries. However, the scope of loans is on the rise and so is the risk.

The Bank's policy is to take steps to mitigate the credit risk by setting exposure ceilings in the loans portfolio. The loans portfolio is managed according to risk considerations and return versus risk considerations.

State-backed loans

On the back of the coronavirus outbreak, the government has decided to establish a dedicated loan fund, in order to aid businesses with cash flow difficulties as a result of the effects of the coronavirus outbreak.

The fund was established in April 2020. The loans are given against state guarantees. The loans are for a period of one to 5 years with an option of a 12-months grace period. In the first year, interest is paid by the state. Those entitled to apply for loans from the fund include VAT-exempt deals and authorized dealers, NGOs, cooperatives or partnerships with annual turnovers of up to NIS 400 million.

The funds offers two tracks:

- The general track - regular track
- The accelerated track. The accelerated track was established in early July 2020. The above allows higher-risk customers to apply for loans under the general track.

As of December 31 2021, 19,525 loans totaling NIS 6.744 billion were provided in both tracks (data include both the Banking Division and Corporate Division).

Customers

The Bank’s services are adapted to meet the needs of various population groups comprising the segment.

B. Management Approach – Mortgage Segment

The Bank offers loans for the purchase of residential apartments or loans pledged by a residential apartment or another asset. The loans are granted both from the Bank's own funds and under state-backed government plans, through 74 units deployed in Leumi branches, which report to the Mortgage Division.

In 2021, Leumi offered - for the first time in the Israeli banking system - to customers of all banks interested in taking out a mortgage or recycling their mortgage, to hold a consultation meeting with a Leumi mortgage banker via Zoom, without having to arrive at a branch. This is in addition to the digital mortgage service offered by the Bank, which allows customers to take out a mortgage without arriving at a Leumi Branch (even when signing the final mortgage papers).

C. Management Approach – Commercial Banking Segment

General

Commercial banking - specializes in the provision of the entire spectrum of financial services to middle-market business entities across all sectors of the economy. This segment sometimes includes interested parties of businesses in the sector, such as shareholders and senior officers.

Service and marketing to these companies are carried out on an individual basis, including financing transactions by means of credit instruments tailored to the customers’ unique requirements, adapting investment products and financial instruments in order to hedge risks, financing international trade transactions and providing funding to start-up companies.

The commercial banking segment also includes activities outside Israel conducted through the Bank’s foreign offices. Companies that are served by the Commercial Banking Department can also opt to work with these branches as they expand their operations abroad.

Segment’s structure and characteristics

The Israeli activities of the segment are managed by the Commercial Banking Department and LeumiTech, which are part of the Corporate Division. The service is rendered by customer relations managers, who coordinate the

Group's customer service; the operational services are provided by employees of the Operations Division, as well as through technological services, etc. The Commercial Banking Department's business model involves 12 business centers deployed across Israel, with the aim of providing the best, most efficient service to commercial customers. LeumiTech operates through the LeumiTech business center located in Herzliya.

Development in the segment's markets and its customers' characteristics

The segment's customers operate mainly in different sectors of the Israeli economy, such as industry, infrastructure, high-tech, trade and services, real estate, etc., as well as in foreign markets.

It is generally expected that in 2022, the global and Israeli economies will continually to gradually emerge from the coronavirus crisis and resume growth - which is expected to impact middle market customers. Accordingly, the segment's credit risks are managed while assessing the creditworthiness of customers on an ongoing basis, with special emphasis on the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The Commercial Banking Department and LeumiTech has an extensive product offering designed for its different customers, including, among other things, financing of long-term investments, financing of foreign trade, financing of rental properties and construction loans, invoice discounting and factoring, financing of mergers and acquisitions, etc. LeumiTech offers technology company additional, dedicated credit products, including financing, venture lending and SAAS credit.

Customers

The customers of the Commercial Banking segment are medium-sized businesses from various sectors of the Israeli economy: commerce, industry, real estate, high-tech, etc. Furthermore, the segment also includes interested parties in these companies.

As a rule, customers with approved credit facilities of more than NIS 10 million and up to NIS 150 million (inclusive) and/or customers with approved credit facilities of up to NIS 250 million to fund income-generating properties or customers with turnovers of more than NIS 20 million and up to NIS 400 million are assigned to the Commercial Banking segment. In addition, the segment includes technology companies regardless of the extent of their credit facilities or business turnover.

D. Management Approach – Corporate Banking Segment

General

The Corporate banking segment specializes in providing banking and financial services to large corporations, some of which are multinationals. The services are based on providing an overall solution for the customer's needs, bearing in mind the whole spectrum of its businesses.

Structure and characteristics of the segment

The Corporate banking segment is managed in Israel by the Corporate Department of the Corporate Division. The Corporate Department includes 3 business sectors: tourism, energy, defense and authorities, chemicals, consumption, finance, industry, transportation and infrastructure. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates. The segment provides a comprehensive offering of banking services to all types of companies in the various sectors. Customers' accounts are managed mainly by the Operations Division and if relevant - by the Bank's foreign offices. Special/complex transactions, such as the acquisition of means of control, assessment of investment plans and project financing, international trade activity, financing of foreign or domestic debtors, syndicated loans, etc., are dealt with by designated units specializing in dealing with such transactions, due to the complexity and risk level involved.

Developments in the segment's markets and customer characteristics

The Corporate Banking Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The services rendered include, among other things, ongoing financing according to the customers' needs, financing of investments to maintain and expand operations, provision of financing and international trade solutions (including financing with credit insurance or private insurance companies of projects abroad), financing of mergers and acquisitions, granting loans for extensive transactions carried out through syndicates in collaboration with the institutional entities and foreign and Israeli banks, financial instruments hedging foreign exchange risks, interest risks and fluctuations in commodities prices. The service also includes promotion of banking services to the companies, managers and companies' employees.

Customers

This segment's customers are mostly market leaders in their fields. Some of these companies are public, operating in different sectors of the Israeli economy and have complex and multi-tiered organizational structures comprising several management and control tiers.

Generally, customers with approved credit facilities of more than NIS 150 million or with a turnover of more than NIS 400 million are assigned to the Corporate Banking segment.

E. Management Approach – Real Estate Segment

General

The Real Estate Department specializes in providing banking and financial services to customers operating mainly in the fields of construction and real estate. Construction loans are granted using unique, industry-specific instruments and analysis tools and implementing a well-balanced policy. The projects are funded through construction loans and are closely monitored and supervised with an emphasis on meticulous review of each project.

Structure and characteristics of the segment

Leumi's Real Estate segment in Israel is mostly managed by the Construction and Real Estate Department of the Corporate Division. The department provides a comprehensive offering of banking services to construction companies and large real estate developers and contractors in Israel; the department's areas of expertise cover all aspects of real estate activities. Customers' accounts are managed mainly by the Operations Division and if relevant - by the Bank's foreign offices. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates.

Developments in the segment's markets and customer characteristics

While 2020 was marked by negative growth - as a result of initial coping with the ramifications of the coronavirus - 2021 was characterized by improved economic and business indicators and a high growth rate of 8.1 percent - mainly due to the understanding that the economy should be run routinely, despite the coronavirus, as well as due to the results of the high tech industry, which continues to be the Israeli economy's main growth engine. 2022 is expected to feature additional positive growth (about 4 percent), depending on the manner in which the government continues to address the coronavirus.

The Real Estate function manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

In 2021, the housing construction domain boomed, due to a significant rise in demand for new housing, resulting from factors related to the coronavirus crisis (higher savings by households, taxation and regulatory easements, including on mortgages), demographic growth as well as uncertainty in the market on the back of the winding down of the affordable housing program and the absence of an orderly state budget. The current supply is inadequate, and fails to meet the increased demand, resulting in continued rise in housing prices, well beyond the averages seen in previous years. Looking forward, despite the higher pace of land sales by the ILA during 2021, the slower "planning pipeline" in 2020 - as a result of the coronavirus, may yet exacerbate the current shortage.

The commercial real estate market is significantly affected by developments and preferences in households' consumption. In 2021, revenues of commercial properties improved, after the substantial drop in 2020, with occupancy rates remaining high. The domain is still impacted by the growth in e-commerce, especially in respect to the large commercial properties, while "neighborhood" properties enjoy a tenant mix that is less exposed to the effects of ecommerce and more resilient in terms of performance. Looking forward, the commercial domain is expected to improve, in light of the improvement in the labor market and growing population. Nevertheless, supply surplus entering the market once construction is completed, may create price pressures in certain geographies, in which supply will increase substantially. The office market, on the other hand, showed relative resilience and sustained moderate damage (especially due to the growth in the high-tech services sector and particularly in the Tel Aviv area); it is estimated that in 2022, this trend will continue and prices will remain relatively stable, especially in the Tel Aviv area, in addition to a slight decrease in occupancy rates, driven by increased telecommuting.

In 2022, as in previous years, real estate activity is expected to be affected by the following factors: the macroeconomic environment and the effects of the coronavirus on economic and business activity; regulatory changes - particularly those relating to the residential housing market; continued implementation of government programs - especially in the real estate domain; completion of construction projects; as well as the scope of the government's investments in national infrastructures.

Services and products

Construction and real estate projects are funded through industry-specific and unique monitoring and analysis tools, which support the decision-making process and the monitoring of loans extended to the various projects and properties. Funding is extended with the aim of diversifying the credit portfolio and distinguishing between the various segments – housing, rental properties - especially commercial and office space, and construction for industry and commerce. Generally, loans granted in the construction phase are extended by way of construction loans, which allow the Bank to closely monitor and supervise the relevant project.

Furthermore, as part of its activities in the Construction and Real Estate segment, the Bank funds real estate transactions which are carried out abroad through its foreign subsidiaries and supports the development of real estate and hospitality projects.

In 2021, the segment continued to implement a well-balanced credit policy which is in line with regulatory requirements, distinguishes between different risk levels, and determines the credit spreads and terms accordingly.

The financing of the business activity in the Bank's major service centers abroad contributes to the risk diversification through exposure to different macroeconomic environments and different customer characteristics. Therefore, the Bank's real estate financing mix is also comprised of transactions by foreign offices.

Customers

The segment's customers include large and mid-sized real estate development companies, executive and infrastructure contractors and selected business companies engaged in real estate development and contracting in the field of rental properties.

The information in this section constitutes forward-looking information. For the meaning of this term, please see the section entitled "Forward-Looking Information".

F. Management Approach – Capital Markets Segment

General

The financial management function of the Bank and the Group manages the trading room and provides various services to banks and institutional investors, including serving as an account manager on their behalf. Set forth below are the segment's main areas of activity:

- Management of the nostro portfolio by investing the Bank's own funds in marketable and non-marketable investment instruments and by management of direct investments in shares of marketable and non-marketable companies; non-financial investments are managed by Leumi Partners.
- Management of the trading room, which provides trading services to the Bank's customers, including market-making, primarily in currencies, securities and derivatives.
- Management of resources and liquidity sources and applications.
- Management of market risk exposures – including management of underlying exposures, interest and liquidity exposures.
- Price management – by setting transfer prices and pricing of special financial transactions.
- Management of banking activity of institutional customers and other corporations with extensive capital market activities.
- Development of financial instruments.

Segment's structure

Financial management is carried out by the Capital Markets Division, which coordinates the function at the Group level. The division manages the banking portfolio and the held-for-trading portfolio and provides services to customers with capital markets and financial markets activities, including institutional customers. The banking portfolio activity is managed by the Financial Management Department and includes the management of liquidity sources and applications, as well as of exposures to market and liquidity risks and the nostro portfolios. The trading activity is carried out by the trading room and nostro units in NIS and in foreign currency.

The main tools for managing the banking portfolio are transfer prices, trading activity in the available-for-sale and held-to-maturity nostro portfolios, and the use of derivatives.

The ALM Department's main areas of responsibility include managing the Bank's financial capital and market risk exposures, managing corporate and statutory liquidity and liquidity risk, as well as allocating liquidity sources to the various applications by implementing the transfer prices policy. This policy is determined according to the Bank's needs, planning and management of the mix of liquidity sources and applications as well as developments in the business environment and forecasts. As part of this activity, the Bank also sets the methodology for netting P&L centers and prices complex and special transactions.

The liquidity is managed on a regular basis in accordance with the Bank's policy and pursuant to the binding directives. Liquidity is also managed by a special-purpose unit, whose main function is optimal planning and management of liquidity balances, subject to the risk appetite, while ensuring a liquidity level that enables the Bank to carry out its business activity while meeting all of its financial obligations in a normal business environment as well as under stress scenarios. The measurement, analysis, planning and reporting activities are carried out through the OneSumX risk management system, which provides extensive information on all of the Bank's financial activities and on the market and liquidity risks associated therewith. The system enables to assess and monitor the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the principal points of the securities investment (nostro) policy, please see the section entitled "Structure and Development of Assets and Liabilities, Equity and Capital Adequacy", under "Securities".

Segment's profit

The segment's profit is mainly impacted by the nostro activity, the trading room activity, ALM management, management of customers' accounts and accounts of other corporations with extensive capital market activities, as well as the results of non-financial associates. Set forth below are the main components of the net income:

- Results of market risks management, including changes in transfer prices. Income and expenses resulting from changes in transfer prices are carried in full to the financial segment, to which all of the market risks from the other operating segments are also transferred.
- Realized gains/losses of securities and from provisions for impairment of securities in respect of a decline which is not temporary in nature in the value of securities and unrealized gains/losses from adjustments of held-for-trading securities to market value.
- Adjustment of derivatives to market value.
- Effects of exchange rate differentials (foreign currency/NIS) and linkage differences (to the CPI), including adjustments from translation of foreign investments and the effect of the related tax effect.
- Income arising from market-making activities.
- Income/expenses arising from investment of pension, jubilee and regular leave reserves.
- Certain costs relating to pension liabilities, calculated on an actuarial basis.
- Profits of associates.

The segment's operating expenses mainly include direct operating expenses, as well as overheads associated with management of market risks, the Bank's own securities (nostro) portfolios and the trading room.

Services and products

The segment's activity mainly involves custodian services, brokerage, and marketable and non-marketable derivatives. In addition, the Bank provides operating services to provident funds, mutual funds and investment funds' management companies.

Customers

The segment's customers include insurance companies, provident funds, study funds, pension funds, mutual funds, exchange-traded funds, commercial banks and investment banks, as well as other customers with extensive capital market activities.

Income and Expenditure Rates[(a)] and Analysis of the Changes in Interest Income and Expenses

Part A - Average Balances and Interest Rates – Assets

	2021			2020			2019		
	Average balance[(b)]	Interest income	% of income	Average balance[(b)]	Interest income	% of income	Average balance[(b)]	Interest income	% of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest-bearing assets									
Loans to the public[(c)]									
In Israel	**289,306**	**9,658**	**3.34**	261,743	8,029	3.07	249,881	8,648	3.46
Outside Israel	**22,976**	**879**	**3.83**	23,656	940	3.97	24,333	1,178	4.84
Total[(i)]	**312,282**	**10,537**	**3.37**	285,399	8,969	3.14	274,214	9,826	3.58
Loans to the government									
In Israel	**843**	**26**	**3.08**	737	24	3.26	717	32	4.46
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**843**	**26**	**3.08**	737	24	3.26	717	32	4.46
Deposits with banks									
In Israel	**11,234**	**58**	**0.52**	11,096	85	0.77	10,115	172	1.70
Outside Israel	**184**	**-**	**-**	197	-	-	359	5	1.39
Total	**11,418**	**58**	**0.51**	11,293	85	0.75	10,474	177	1.69
Deposits with central banks									
In Israel	**118,717**	**119**	**0.10**	68,836	90	0.13	48,514	122	0.25
Outside Israel	**1,949**	**3**	**0.15**	1,240	3	0.24	1,053	14	1.33
Total	**120,666**	**122**	**0.10**	70,076	93	0.13	49,567	136	0.27
Securities borrowed or purchased under reverse repurchase agreements									
In Israel	**5,333**	**6**	**0.11**	1,915	6	0.31	886	4	0.45
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**5,333**	**6**	**0.11**	1,915	6	0.31	886	4	0.45
Held-to-maturity and available-for-sale bonds[(d)]									
In Israel	**71,080**	**784**	**1.10**	76,264	859	1.13	66,968	1,087	1.62
Outside Israel	**5,634**	**117**	**2.08**	4,675	114	2.44	5,375	143	2.66
Total	**76,714**	**901**	**1.17**	80,939	973	1.20	72,343	1,230	1.70
Bonds - held-for-trading[(d)]									
In Israel	**2,744**	**22**	**0.80**	7,735	25	0.32	5,347	32	0.60
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,744**	**22**	**0.80**	7,735	25	0.32	5,347	32	0.60
Total interest-bearing assets	**530,000**	**11,672**	**2.20**	458,094	10,175	2.22	413,548	11,437	2.77
Non-interest-bearing receivables for credit cards	**5,647**			5,284			5,901		
Other non-interest-bearing assets[(e)]	**52,079**			49,990			41,050		
Total assets	**587,726**	**11,672**		513,368	10,175		460,499	11,437	
Total interest-bearing assets attributed to foreign operations	**30,743**	**999**	**3.25**	29,768	1,057	3.55	31,120	1,340	4.31

Please see comments below.

Part B - Average Balances and Interest Rates - Liabilities and Equity

	2021			2020			2019		
	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense	Average balance[(b)]	Interest expense	% of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities									
Deposits by the public									
In Israel	**316,728**	**810**	**0.26**	285,623	940	0.33	258,793	1,736	0.67
Demand deposits	**181,178**	**15**	**0.01**	150,125	33	0.02	126,291	152	0.12
Fixed deposits	**135,550**	**795**	**0.59**	135,498	907	0.67	132,502	1,584	1.20
Outside Israel	**12,382**	**37**	**0.30**	14,361	113	0.79	15,549	290	1.87
Demand deposits	**8,385**	**8**	**0.10**	6,788	25	0.37	5,781	77	1.33
Fixed deposits	**3,997**	**29**	**0.73**	7,573	88	1.16	9,768	213	2.18
Total	**329,110**	**847**	**0.26**	299,984	1,053	0.35	274,342	2,026	0.74
Deposits by the Israeli Government									
In Israel	**191**	**2**	**1.05**	193	3	1.55	198	3	1.52
Outside Israel	**9**	**-**	**-**	80	-	-	307	-	-
Total	**200**	**2**	**1.00**	273	3	1.10	505	3	0.59
Deposits by central banks									
In Israel	**14,362**	**10**	**0.07**	2,847	3	0.11	42	1	2.38
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**14,362**	**10**	**0.07**	2,847	3	0.11	42	1	2.38
Deposits by banks									
In Israel	**5,935**	**4**	**0.07**	5,687	11	0.19	4,993	26	0.52
Outside Israel	**137**	**-**	**-**	155	-	-	50	-	-
Total	**6,072**	**4**	**0.07**	5,842	11	0.19	5,043	26	0.52
Securities loaned or sold under repurchase agreements									
In Israel	**703**	**2**	**0.28**	1,080	8	0.74	384	3	0.78
Outside Israel	**253**	**-**	**-**	-	-	-	-	-	-
Total	**956**	**2**	**0.21**	1,080	8	0.74	384	3	0.78
Bonds									
In Israel	**13,707**	**461**	**3.36**	19,935	374	1.88	19,896	537	2.70
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**13,707**	**461**	**3.36**	19,935	374	1.88	19,896	537	2.70
Total interest-bearing liabilities	**364,407**	**1,326**	**0.36**	329,961	1,452	0.44	300,212	2,596	0.86
Non-interest-bearing deposits by the public	**149,750**			112,246			91,061		
Non-interest-bearing payables for credit cards	**2,510**			1,725			3,945		
Other non-interest-bearing liabilities[(f)]	**31,958**			32,241			29,304		
Total liabilities	**548,625**	**1,326**		476,173	1,452		424,522	2,596	
Total capital resources	**39,101**			37,195			35,977		
Total capital commitments and resources	**587,726**	**1,326**		513,368	1,452		460,499	2,596	
Interest rate spread		**10,346**	**1.84**		8,723	1.78		8,841	1.91
Net yield on interest-bearing assets[(g)(i)]									
In Israel	**499,257**	**9,384**	**1.88**	428,326	7,779	1.82	382,428	7,791	2.04
Outside Israel	**30,743**	**962**	**3.13**	29,768	944	3.17	31,120	1,050	3.37
Total	**530,000**	**10,346**	**1.95**	458,094	8,723	1.90	413,548	8,841	2.14
Total interest-bearing liabilities attributed to foreign operations	**12,781**	**37**	**0.29**	14,596	113	0.77	15,906	290	1.82

Please see comments below.

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Activities in Israel

	2021			2020			2019		
	Average balance(b)	Interest income (expenses)	% of income (expense)	Average balance(b)	Interest income (expenses)	% of income (expense)	Average balance(b)	Interest income (expenses)	% of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked NIS									
Total interest-bearing assets	368,295	6,954	1.89	302,496	6,649	2.20	272,720	6,854	2.51
Total interest-bearing liabilities	273,708	(351)	(0.13)	226,950	(451)	(0.20)	200,685	(580)	(0.29)
Interest rate spread			1.76			2.00			2.22
CPI-linked NIS									
Total interest-bearing assets	50,822	2,694	5.30	47,620	1,160	2.44	46,504	1,563	3.36
Total interest-bearing liabilities	18,130	(696)	(3.84)	23,962	(316)	(1.32)	29,722	(720)	(2.42)
Interest rate spread			1.46			1.12			0.94
Foreign currency (including foreign-currency linked NIS)									
Total interest-bearing assets	80,140	1,025	1.28	78,210	1,309	1.67	63,204	1,680	2.66
Total interest-bearing liabilities	59,788	(242)	(0.40)	64,453	(572)	(0.89)	53,899	(1,006)	(1.87)
Interest rate spread			0.88			0.78			0.79
Total activity in Israel									
Total interest-bearing assets	499,257	10,673	2.14	428,326	9,118	2.13	382,428	10,097	2.64
Total interest-bearing liabilities	351,626	(1,289)	(0.37)	315,365	(1,339)	(0.42)	284,306	(2,306)	(0.81)
Interest rate spread			1.77			1.71			1.83

Please see comments below.

Part D - Analysis of Changes in Interest Income and Interest Expenses

	2021 vs. 2020			2020 vs. 2019		
	Increase (decrease) due to change[h]		Net change	Increase (decrease) due to change[h]		Net change
	Quantity	Price		Quantity	Price	
	In NIS millions					
Interest-bearing assets						
Loans to the public						
In Israel	**920**	**709**	**1,629**	364	(983)	(619)
Outside Israel	**(26)**	**(35)**	**(61)**	(27)	(211)	(238)
Total	**894**	**674**	**1,568**	337	(1,194)	(857)
Other interest-bearing assets						
In Israel	**210**	**(284)**	**(74)**	223	(583)	(360)
Outside Israel	**26**	**(23)**	**3**	(13)	(32)	(45)
Total	**236**	**(307)**	**(71)**	210	(615)	(405)
Total interest income	**1,130**	**367**	**1,497**	547	(1,809)	(1,262)
Interest-bearing liabilities						
Deposits by the public						
In Israel	**80**	**(210)**	**(130)**	88	(884)	(796)
Outside Israel	**(6)**	**(70)**	**(76)**	(9)	(168)	(177)
Total	**74**	**(280)**	**(206)**	79	(1,052)	(973)
Other interest-bearing liabilities						
In Israel	**71**	**9**	**80**	57	(228)	(171)
Total	**71**	**9**	**80**	57	(228)	(171)
Total interest expenses	**145**	**(271)**	**(126)**	136	(1,280)	(1,144)
Total interest, net	**985**	**638**	**1,623**	411	(529)	(118)

Comments:

(a) The data in the above tables are stated after the effect of hedging derivatives.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated according to daily inputs, and before deducting the average on-balance sheet loan loss provisions; foreign subsidiaries - based on quarterly opening balances.

(c) Before deducting the average balance of loan loss provisions. Including non-accrual impaired debts.

(d) The average balance of unrealized gains/losses from fair value adjustments of held-for-trading bonds were deducted/added from the average balance of held-for-trading bonds and available-for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under accumulated other comprehensive income, in the adjustments in respect of presentation of available-for-sale securities at fair value item in respect of bonds transferred from the available-for-sale portfolio, in the amount of NIS 1,441 million (December 31 2020 – NIS 1,675 million; December 31 2019 - NIS 418 million).

(e) Including book balances of derivatives, other non-interest-bearing assets, non-monetary assets, and less loan loss provision.

(f) Including book balances of derivatives and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the former quantity by the new price.

(i) Fees and commissions in the amount of NIS 526 million were included in interest income from loans to the public (December 31 2020 - NIS 400 million; December 31 2019 - NIS 399 million).

(j) Net yield on interest-bearing assets (NIM) for the fourth quarter of 2021 and 2020 was 1.85 percent and 1.88 percent, respectively.

(k) Total assets in the fourth quarte of 2021 and 2020 was NIS 618,758 million and NIS 530,095 million, respectively.

Quarterly Consolidated Income Statement - Multi-Quarter Information

	For the year ended December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Interest income	2,801	3,033	3,226	2,612	2,502	2,582	2,498	2,593
Interest expense	248	362	452	264	285	366	377	424
Interest Income, Net	2,553	2,671	2,774	2,348	2,217	2,216	2,121	2,169
Loan loss expenses (income)	(83)	(359)	(158)	(212)	270	547	875	860
Interest income, net after loan loss expenses	2,636	3,030	2,932	2,560	1,947	1,669	1,246	1,309
Noninterest income								
Noninterest finance income (expenses)	370	276	627	441	539	457	690	(660)
Fees and Commissions	939	846	853	868	824	788	776	893
Other income	56	118	52	65	23	8	15	13
Total noninterest income	1,365	1,240	1,532	1,374	1,386	1,253	1,481	246
Operating and other expenses								
Salaries and related expenses	1,030	1,079	1,055	1,078	954	942	911	935
Buildings and equipment - maintenance and depreciation[a]	402	369	383	381	403	389	385	425
Other expenses[a]	444	407	420	380	468	418	373	443
Total operating and other expenses	1,876	1,855	1,858	1,839	1,825	1,749	1,669	1,803
Profit (loss) before taxes	2,125	2,415	2,606	2,095	1,508	1,173	1,058	(248)
Provision (benefit) for profit tax	693	879	950	753	604	432	359	(39)
Profit (loss) after taxes	1,432	1,536	1,656	1,342	904	741	699	(209)
The Bank's share in associates' profits (losses), net, after tax	46	26	22	7	(8)	8	1	(14)
Net income:								
Before attribution to non-controlling interests	1,478	1,562	1,678	1,349	896	749	700	(223)
Attributable to non-controlling interests	(8)	(11)	(11)	(9)	(6)	1	(6)	(9)
Attributable to the Bank's shareholders	1,470	1,551	1,667	1,340	890	750	694	(232)
Basic and diluted earnings per share (in NIS):								
Basic and diluted net income (losses) attributable to the Bank's shareholders	1.01	1.07	1.15	0.92	0.61	0.52	0.48	(0.16)

(a) Reclassified.

Loan Loss Expenses

	For the year ended December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Loan loss expense (income) - specific	(90)	(151)	(76)	(169)	395	(10)	175	104
Loan loss expense (income) - collective	7	(208)	(82)	(43)	(125)	557	700	756
Total loan loss expense (income)	(83)	(359)	(158)	(212)	270	547	875	860
Of which:								
Loan loss expenses (income) for credit risk in respect of commercial credit risk	(41)	(248)	(153)	(180)	253	498	615	739
Loan loss expenses (income) for risk for housing credit	(55)	(63)	(8)	(19)	(15)	52	107	31
Loan loss expenses (income) for other credit risk in respect of for private individuals	13	(49)	4	(13)	34	(5)	155	87
Loan loss expenses (income) for credit risk for banks and governments	-	1	(1)	-	(2)	2	(2)	3
Total loan loss expense (income)	(83)	(359)	(158)	(212)	270	547	875	860
Ratios (in %):[(a)]								
Percentage of loan loss expense (income) out of the average registered outstanding balance of loans to the public	(0.11)	(0.19)	(0.10)	(0.22)	0.56	(0.01)	0.24	0.14
Percentage of loan loss expense (income) out of the average outstanding loans to the public	(0.10)	(0.44)	(0.20)	(0.28)	0.38	0.76	1.18	1.20
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	(0.04)	(0.01)	0.01	0.16	(0.10)	(0.10)	(0.25)	(0.27)
Percentage of net write-offs for loans to the public out of the outstanding loan loss provision for loans to the public	(2.72)	(0.85)	0.79	9.65	(5.26)	(5.62)	(15.27)	(18.42)

(a) Annualized.

In the fourth quarter of 2020, the change in the loan loss expenses composition stems, inter alia, from the transition of collective expenses recorded in previous periods to specific expenses, which partially reflect risk in respect of specific customers.

Noninterest income

	For the year ended December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Noninterest finance income (expenses)	370	276	627	441	539	457	690	(660)
Fees and Commissions	939	846	853	868	824	788	776	893
Other income	56	118	52	65	23	8	15	13
Total	1,365	1,240	1,532	1,374	1,386	1,253	1,481	246

Fees and Commissions

	For the year ended December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Account management	174	160	158	157	154	161	155	172
Credit cards	88	99	94	84	82	82	78	85
Activity in securities and certain derivatives	200	173	192	219	187	165	177	198
Financial products distribution fees and commissions	61	60	58	55	53	53	51	58
Management, operating and trust services provided to institutional entities	23	22	22	21	17	21	21	21
Credit handling	55	47	50	51	49	42	39	43
Exchange rate differentials	118	94	92	98	86	84	85	137
Foreign trade activity	32	29	31	28	32	28	26	28
Net income from loan portfolio servicing	1	2	2	2	2	3	2	2
Management fees and commissions on life and home insurance	12	12	11	12	15	11	13	14
Financing fees and commissions	146	120	115	114	120	111	103	108
Other fees and commissions	29	28	28	27	27	27	26	27
Total fees and commissions	939	846	853	868	824	788	776	893

Salary Expenses

	For the year ended December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Salaries and related expenses	945	988	955	983	845	850	824	855
Pension, severance and retirement expenses	85	91	100	95	109	92	87	80
Total salary expenses	1,030	1,079	1,055	1,078	954	942	911	935

Consolidated Balance Sheet as of End of Quarter - Multi-Quarter Information

	December 31							
	2021				2020			
	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	197,402	171,645	160,946	139,979	136,194	117,555	100,982	103,171
Securities	86,927	81,580	91,474	87,685	92,297	95,164	98,672	94,012
Securities borrowed or purchased under reverse repurchase agreements	2,447	6,565	5,721	4,630	3,019	2,333	1,892	1,664
Loans to the public	347,391	330,209	320,300	312,753	300,631	291,461	290,977	298,455
Loan loss provision	(4,512)	(4,685)	(5,067)	(5,192)	(5,290)	(5,087)	(4,633)	(3,969)
Loans to the public, net	342,879	325,524	315,233	307,561	295,341	286,374	286,344	294,486
Loans to governments	940	873	945	749	632	726	739	728
Investments in associates	1,113	1,117	854	790	795	801	748	741
Buildings and equipment	2,720	2,699	2,763	2,832	2,932	2,886	2,910	2,956
Goodwill	14	15	15	15	15	16	16	16
Assets for derivatives	14,027	13,871	11,216	13,061	15,252	12,551	14,796	24,901
Other assets	7,985	8,023	8,255	8,632	9,558	9,644	9,749	8,860
Total assets	656,454	611,912	597,422	565,934	556,035	528,050	516,848	531,535
Liabilities and capital								
Deposits by the public	537,269	500,876	487,082	460,412	447,031	427,115	416,956	418,627
Deposits by banks	25,370	23,161	22,140	17,178	15,143	10,685	6,659	6,172
Deposits by Governments	300	179	219	228	208	232	230	313
Securities loaned or sold under repurchase agreements	2,282	882	814	535	605	695	483	3,714
Bonds, promissory notes and subordinated bonds	15,428	13,189	13,199	13,108	16,303	17,368	19,519	22,530
Liabilities for derivatives	15,551	14,154	11,555	13,269	17,315	13,559	15,810	24,946
Other liabilities	18,202	17,232	21,121	21,649	21,335	20,813	20,598	18,524
Total liabilities	614,402	569,673	556,130	526,379	517,940	490,467	480,255	494,826
Equity attributable to the Bank's shareholders	41,610	41,787	40,848	39,118	37,664	37,128	36,132	36,245
Non-controlling interests	442	452	444	437	431	455	461	464
Total capital	42,052	42,239	41,292	39,555	38,095	37,583	36,593	36,709
Total liabilities and capital	656,454	611,912	597,422	565,934	556,035	528,050	516,848	531,535

Consolidated Income Statement for 2017-2021 - Multi-Year Information

	2021	2020	2019	2018	2017
	In NIS millions				
Interest income	**11,672**	10,175	11,437	11,346	10,069
Interest expense	**1,326**	1,452	2,596	2,456	2,023
Interest Income, Net	**10,346**	8,723	8,841	8,890	8,046
Loan loss expenses (income)	**(812)**	2,552	609	519	172
Interest income, net after loan loss expenses	**11,158**	6,171	8,232	8,371	7,874
Noninterest income					
Noninterest finance income	**1,714**	1,026	1,686	682	919
Fees and Commissions	**3,506**	3,281	3,225	4,121	4,052
Other income	**291**	59	170	68	371
Total noninterest income	**5,511**	4,366	5,081	4,871	5,342
Operating and other expenses					
Salaries and related expenses	**4,242**	3,742	4,325	4,544	4,591
Buildings and equipment - maintenance and depreciation	**1,535**	1,602[(a)]	1,580[(a)]	1,569	1,661
Other expenses	**1,651**	1,702[(a)]	2,003[(a)]	2,224	2,163
Total operating and other expenses	**7,428**	7,046	7,908	8,337	8,415
Profit before taxes	**9,241**	3,491	5,405	4,905	4,801
Provision for profit tax	**3,275**	1,356	1,830	1,619	1,692
Profit after taxes	**5,966**	2,135	3,575	3,286	3,109
The banking corporation's share in associates' profits (losses) after tax effect	**101**	(13)	(15)	36	92
Net income					
Before attribution to owners of non-controlling interests	**6,067**	2,122	3,560	3,322	3,201
Attributable to non-controlling interests	**(39)**	(20)	(38)	(65)	(29)
Attributable to the Bank's shareholders	**6,028**	2,102	3,522	3,257	3,172
Basic and diluted earnings per share (in NIS):					
Basic earnings attributable to the Bank's shareholders	**4.15**	1.44	2.37	2.15	2.08
Diluted net income attributable to the Bank's shareholders	**4.15**	1.44	2.37	2.15	2.08

(a) Reclassified.

Consolidated Balance Sheet as at December 31 - Multi-Year Information

	2021	2020	2019	2018	2017
	In NIS millions				
Assets					
Cash and deposits with banks	**197,402**	136,194	76,213	80,113	81,333
Securities	**86,927**	92,297	84,949	74,571	77,299
Securities borrowed or purchased under reverse repurchase agreements	**2,447**	3,019	1,117	1,037	1,161
Loans to the public	**347,391**	300,631	285,806	275,954	271,977
Loan loss provision	**(4,512)**	(5,290)	(3,328)	(3,352)	(3,213)
Loans to the public, net	**342,879**	295,341	282,478	272,602	268,764
Loans to governments	**940**	632	744	782	715
Investments in associates	**1,113**	795	765	623	807
Buildings and equipment	**2,720**	2,932	3,043	2,853	2,986
Goodwill	**14**	15	16	17	16
Assets for derivatives	**14,027**	15,252	10,970	12,750	9,573
Other assets	**7,985**	9,558	8,486	6,642	8,262
Assets held for sale(a)	**-**	-	-	8,570	-
Total assets	**656,454**	556,035	468,781	460,560	450,916
Liabilities and capital					
Deposits by the public	**537,269**	447,031	373,644	364,714	362,854
Deposits by banks	**25,370**	15,143	6,176	5,210	4,858
Deposits by Governments	**300**	208	315	709	452
Securities loaned or sold under repurchase agreements	**2,282**	605	123	321	558
Bonds, promissory notes and subordinated bonds	**15,428**	16,303	19,958	17,798	15,577
Liabilities for derivatives	**15,551**	17,315	11,528	12,089	9,740
Other liabilities	**18,202**	21,335	21,163	14,780	23,324
Liabilities held for sale(a)	**-**	-	-	8,778	-
Total liabilities	**614,402**	517,940	432,907	424,399	417,363
Non-controlling interests	**442**	431	468	856	386
Equity attributable to the Bank's shareholders	**41,610**	37,664	35,406	35,305	33,167
Total capital	**42,052**	38,095	35,874	36,161	33,553
Total liabilities and capital	**656,454**	556,035	468,781	460,560	450,916

(a) For more information, please see Note 36F. in the financial statements as at December 31 2018.

Glossary of Terms

Term	Definition
A	
Actuarial Calculation	Any calculation that reflects uncertainties, i.e., is risk-adjusted. For example, an Actuarial Calculation reflects past experience and management's estimates as to the expected retirement dates of a bank's employees and the expected retirement benefits which are allocated on a linear basis over the expected service period.
Active Market	A market in which transactions in an asset or liability exist at a sufficient frequency and volume to provide information about pricing on an ongoing basis.
Actuarial Gain/Loss	Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and a deduction of amounts previously recorded in other comprehensive income.
Asset and Liability Management (ALM)	Management of the Bank's assets and liabilities with the aim of avoiding a mismatch between the two and, in the long-term, increasing the Bank's capital for the benefit of its shareholders.
Asset-Backed Securities (ABSs)	A security whose interest and principal payments are collateralized or pledged by a specific financial asset.
Auxiliary Corporation	A corporation which is not in itself a bank and whose activities are limited to the fields of activity permitted to the bank controlling it, except activities reserved exclusively for corporations defined as banks under law.
Average Duration (AD)	Average duration is measured in years and weights the periodic interest payments of the financial instrument over its life until final redemption.
B	
Balanced Score Card (BSC)	A performance metric used for measuring the performance of the Bank and its business lines on a number of quantitative and qualitative issues defined by Bank's management in its strategic plan.
Basel II/Basel III	Banks' risk management directives set by the Basel Committee on Banking Supervision (BCBS), which is the primary supervision and global standard setter for prudential regulation and supervision of banks. The BCBS's directives serve as the benchmark for leading standards designed to ensure the stability of financial institutions.
Basic Earnings per Share	Basic earnings per share will be calculated by dividing the profit or loss attributed to holders of the parent company's ordinary shares (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator).
Basis Point (BP)	1/100th of 1 percent; BP is used as a common unit of measure for interest rates.

Basis Risks	Basis Risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases.
Benchmark Interest Rate	Interest determined on an external objective basis according to a pre-set formula, i.e., the bank plays no direct role in setting it.
Bid-Ask Spread	The difference between the offered purchase price and selling price. This is, in fact, the difference between the highest price a buyer is willing to pay for an asset and the lowest price in which a seller is willing to sell it.
Build Operate Transfer (BOT)	A model used to finance public projects whereby a public entity grants a concession to a private company to finance, plan, build and operate a public facility for a fixed period of time, at the end of which control of the facility is transferred to the government.
C	
Capital Adequacy Ratio	The ratio between the Bank's qualifying Regulatory Capital and its risk-weighted assets (the Bank's assets weighted to reflect credit, market and operational risks), calculated in accordance with the Bank of Israel's directives and to reflect the risk associated with exposures undertaken by the Bank during the course of its activities.
Collateralized Debt Obligation (CDO)	A bond backed by a portfolio of bonds and/or loans of various seniority levels and ratings.
Collateralized Loan Obligation (CLO)	A bond backed by a loans portfolio.
Collective Provision	A Collective Provision for Loan losses is applied to large groups of relatively small and homogeneous debts and to debts that were reviewed individually and were found to be unimpaired. The Collective Provision in respect of the off-balance sheet loans is based on provision rates that were set for balance sheet loans, while taking into account the expected materialization rate of the off-balance sheet credit risk.
Common Equity Tier 1 Capital	Going Concern Capital Common Equity Tier 1 (CET1) Capital includes the equity attributed to a bank's shareholders, with the addition of some of the non-controlling interests (minority interests) of consolidated subsidiaries less goodwill, other intangible assets and regulatory adjustments and additional deductions, pursuant to Proper Conduct of Banking Business Directive No. 202, "Measurement and Capital Adequacy – Regulatory Capital" and pursuant to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

Conduct Risk	Conduct Risk is the risk that any dealings with Bank's customers which are not fair, transparent and aimed to meet their needs will lead to losses due to legal damages, fines or reputational damage.
Committee Of Sponsoring Organizations of the Treadway Commission (COSO)	A structured internal controls model. The model is intended to assist businesses and other entities to assess, estimate and enhance their internal control functions.
Cost of Interest	The interest component allocated to a current year and classified into payroll expenses.
Cost of Service	All components of employee benefits costs allocated to a specific period.
Credit Default Swap (CDS)	A financial instrument that transfers the credit exposure between parties to a transaction to the issuing entity.
Credit Derivative	A contract that transfers the credit risk from a buyer to a seller. There are various forms of Credit Derivatives: Credit Default Swap (CDS), a note for partial cover of credit risk, Total Return Swap (TRS), etc..
Credit Valuation Adjustment (CVA)	The calculation of credit risk in derivatives reflects the expected loss to the bank in case the counterparty to the transaction will default.
Credit Risk	Credit risk is the Bank's risk of loss as a result of the possibility that a borrower or counterparty fails to meet its agreed commitments towards the bank.
Cross Border Activity	A term referring to various cross-border financing arrangements, such as cross border loans, letters of credit or bankers' acceptances.
Cyber Event	An event during which the Bank's IT and/or computer-embedded systems and infrastructures are attacked by, or on behalf of, opponents (whether external or internal to the bank) and such attack may result in the materialization of the cyber risk, including an attempted attack even if it did not result in actual damage.
D	
Defined Benefit Plan	Fixed and predetermined pension or insurance amounts which are paid to eligible employees, whether or not they depend on the investment results of the pension fund or insurer.
Delinquent Debt	The delinquency (arrears) status of a debt is determined according to its contractual repayment terms. The debt is in arrears if some or all of the debt amount has not been repaid within 30 days of its due date. For this purpose, a debt in a current account in excess of the authorized credit facility will be regarded as being in arrears if not repaid within 30 days, or if that account is not credited with sums sufficient to cover the debt under the credit facility within the period determined by the Bank's management.

Diluted Earnings Per Share	Dividing the profit or loss attributed to holders of the parent company by the weighted average number of ordinary shares outstanding, to assume conversion of all potentially dilutive ordinary shares.
Dodd Frank Wall Street Reform and Consumer Protection Act (DFA)	The DFA is a U.S. federal law which came into force on July 28 2019. The DFA sets in motion a comprehensive financial reform which has various implications for the Leumi Group, the principal of which is associated with transactions involving over-the-counter derivative swaps.
E	
Embedded Derivatives	Embedded Derivatives are derivative instruments which are embedded into other financial contracts and instruments or into commercial contracts for the purchase or sale of products and services (these contracts are known as host contracts). The accounting treatment is applied according to the economic substance of the items and transactions, rather than according to their legal form; therefore, embedded derivatives whose economic characteristics are not clearly and closely related to those of the host contract are bifurcated therefrom for the purpose of measurement in the Bank's books of accounts.
European Market Infrastructure Regulation (EMIR)	A regulation of the European Union which is intended to enhance the stability of over-the-counter markets in all EU countries.
Exposure at Default (EAD)	The expected amount of counterparty exposure in case of credit default.
F	
Fair Value	The amount for which an asset can be exchanged or a liability assumed in a transaction between knowledgeable, willing parties. This value is determined according to the fair value hierarchy set in accounting standards: • Level 1 – Value based on quoted market prices; • Level 2 – Estimated value based on observable inputs; • Level 3 – Estimated value determined by using valuation techniques that include unobservable inputs.
Fannie Mae (FNMA)	A U.S. government-sponsored enterprise which purchases and securitizes mortgages and sells them on the free market. (The company is not backed by the U.S. government).
Federal Deposit Insurance Corporation (FDIC)	An independent federal agency insuring deposits in U.S. banks; FDIC is one of the U.S.'s banking supervisory bodies.

Foreign Accounts Tax Compliance Act (FATCA)	A U.S. tax law intended to improve tax enforcement. Pursuant to FATCA, non-U.S. financial entities must disclose to the U.S. Internal Revenue Service information about accounts held by them for anyone who is required to report under FATCA, even if he/she is not a U.S. resident.
Forwards	Forwards are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Forwards are not standard contracts and are not traded on capital markets, but are drawn up specifically according to the parties' needs.
Freddie Mac (FHLMC)	FHLMC is a U.S. government-sponsored agency that purchases and securitizes mortgages and sells them to the public. (The company is not backed by the U.S. government).
Futures	Futures are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Futures are standard contracts traded on capital markets.
G	
Ginnie Mae (GNMA)	A federal mortgage company. The bonds issued by GNMA are backed by the Government National Mortgage Association.
I	
Impaired Non-Performing Loan	A balance sheet loan that is assessed on a case by case basis and which - based on present circumstances and information - it is probable that the Bank will be unable to collect the full amounts payable (principal plus interest) under the contractual terms of the debt agreement. A debt which is assessed on a case by case basis shall be classified as Impaired Loan whenever the principal or interest has been past due for a period of 90 consecutive days or more, unless it is both well secured and in the process of collection. Off-balance sheet loans are classified as impaired loans if it is at least reasonably possible that the contingent liability in respect of the off-balance sheet item will materialize, and if the debts that may result from the materialization of the contingent liability should be classified into this category. Furthermore, a debt that which is assessed on an individual basis and whose terms were changed due to restructuring of a troubled debt will also be considered as non-performing loans.
Indebtedness	The Bank's loan exposures to a borrower or group of borrowers, including loans under the bank's responsibility, the bank's investments in the borrower's

	securities, commitments of the bank to pay money on a customer's behalf (including guarantees and Documentary Credit) and transactions in over the counter (OTC) derivatives. Indebtedness is calculated according to the provisions of Proper Conduct of Banking Business Directive No. 313 of the Banking Supervision Department.
Interest Rate Risk	The risk of loss or impairment as a result of changes in interest rates across various currencies.
Internal Capital Adequacy Assessment Process (ICAAP)	The capital adequacy assessment process is aimed at calculating the capital required to support the various risks to which the Group is exposed in order to ensure that the Group's effective capital exceeds the capital requirements at any time.
Internal Rate of Return (IRR)	A measure used to estimate the profitability of potential investments. This metric is an indicator of the efficiency and quality of a specific investment in relation to the net present value, which is an indicator of the value and size of the investment. The Internal Rate of Return is the interest rate that discounts the expected cash flow from a financial instrument to its balance in the Bank's balance sheet.
L	
Leverage Ratio	Defined as the measured capital (the numerator) divided by the measured exposure (the denominator), with the ratio expressed as a percentage.
Linkage Base and Exchange Rate Exposure	The exposure to the basis risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases. The exposure to basis risks is measured as a percentage of the Group's exposed capital. At the Bank level, the exposed capital includes common equity and certain provisions, net of property, plant and equipment and investments in investees.
Liquidity Coverage Ratio	Liquidity Coverage Ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a bank has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon.
Liquidity Risk	Liquidity Risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss.
Loan-to-Value (LTV) Ratio	The ratio of a bank loan to the value of a purchased asset. LTV reflects one aspect of the loan risk; a higher LTV reflects a higher risk to the lending bank.
Loss Given Default (LGD)	This is the percentage out of a borrower's total Exposure at Default (EAD), which the Bank is expected to lose on default.

M	
Market Risks	Market Risk is defined as the risk of loss in balance sheet and off-balance sheet positions as a result of a change in the fair value of a financial instrument due to change in market conditions (i.e., changes in: price levels in various markets; interest rate volatility; foreign exchange rates; inflation rates; share and commodity prices, as well as in other economic measures).
Mortgage-Backed Securities (MBS)	Bonds which are backed by financial assets, the principal and interest payments of which are based on a cash flow from repayment of loans collateralized by financial assets. The collateral assets may be pools of loans, including housing mortgages or other financial assets.
N	Impaired non-accruing loans.
Net Interest Margin (NIM)	Ratio between net interest income and the average balance of interest-bearing assets.
Non-Performing Loan (NPL)	Non-accrual impaired debt.
O	
OECD	An international organization whose members are developed countries that accept the principles of liberal democracy and free market. The organization is a platform for discussing policy, benchmarking, identifying solutions to difficulties and drawing up codes, guiding principles and shared standards for the implementation of domestic economic and social policies. Each member state can make a significant contribution to the organization's policy and development of shared policies.
Off-Balance Sheet Exposures	These exposures arise from the Bank's undertakings to its borrowers that have not yet been realized/utilized by the borrowers as of the reporting date and therefore have not yet been recorded as a balance sheet asset or liability. Such exposures include, among other things: Unutilized undertakings to extend loans; • Unutilized credit facilities; • Undertakings pursuant to guarantee agreements; • Undertakings pursuant to an approval in principle where the Bank is committed to maintain the interest rate over a certain period, • and more.
On-call Credit	Loan granted for several days and repaid on call, in accordance with the conditions of the agreement between the Bank and the customer.
Operational Risk	Operational Risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events. This definition includes legal risk, but does not include strategic risk and reputational risk.
Option Contract/Option	There are two types of Option Contracts: an option to buy (call option) or an option to sell (put option). A call option is the right to buy a specified asset at an

	agreed price (strike price) up to (American-style option) or on (European-style option) a stipulated date. A put option is the right to sell a specified asset at an agreed price (strike price) up to (American-style option) or at (European-style option) a stipulated date.
P	
Performance Stock Units (PSU)	Performance Stock Unit awards are restricted shares and depend on the bank's future performance.
Pillar 1	The allocation of minimum capital against credit, market and operational risks, using a method that correlates the scope of exposure to the various risks and Regulatory Capital requirement. The Pillar 1 Directives set by BCBS were adopted as part of Proper Conduct of Banking Business Directives No. 201 to No. 209; these directives set a supervisory method for calculation of risk-weighted assets and calculation of the capital requirements in respect of such risk-weighted assets.
Private Individuals	Persons who are not corporations (whether registered or non-registered) and who are not engaged in business activity. According to the directives of the Bank of Israel, private persons are defined such that this category includes non-business loans to individuals who are classified into the private individuals sector according to uniform definitions of the Central Bureau of Statistics including households and private banking.
Probability of Default (PD)	A financial term describing the likelihood of borrower default within a given period of time from the date on which rating is issued. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations.
R	
Regulatory Capital	Capital used to calculate the Bank's capital adequacy ratio and other regulatory ratios (such as: leverage ratio, credit concentration and more). Accounting capital components and other qualifying Regulatory Capital instruments (such as subordinated notes that qualify as Regulatory Capital).
Repurchase Agreement or Reverse Repurchase Agreement	These repo agreements are agreements for the purchase or sale of securities in consideration for cash or securities; when entering into these agreements, the seller and the buyer agree to enter into a reverse transaction at a predetermined date and price.
Reputational Risk	The risk that the publication or public disclosure of a customer-related transaction or practice, as well as the Group's business results and events relating thereto will have an adverse effect on the public's trust in the Group

	or reduce its customer base or that the Group will incur high legal costs or that its revenues will decline.
Residual Risk	Residual Risk is the risk of loss remaining after all other specific risks have been factored in. For example: when a person purchases an asset, he is exposed to various risks. Many of these risks are not unique to the purchased asset, but rather reflect broader scenarios, such as increase or decrease in share prices, increase or decrease in interest rates or change in growth rate of a specific economy or industry. The exposure to this risk can be reduced by diversification.
Restricted Share Units (RSUs)	An ordinary share whose issuance terms restrict its tradability over a certain period or until the occurrence of a certain event where the period has not yet elapsed and/or the event has not yet occurred.
Restructuring of Troubled Debt	A debt, in respect of which the Bank, whether for economic or legal reasons related to financial difficulties of the borrower, grants the borrower a waiver by changing the terms of the debt, in order to enable the borrower to repay the cash payments in the short term or by accepting other assets as debt repayment.
Return on Equity	Net income less dividend for preferred shares which was not recorded as an expense in profit or loss and was declared in the reported period only, divided by the average common equity.
Rate of Return on Equity (ROE)	The ratio between a business's return (net income) and its common equity. This rate measures the Bank's ability to generate profit from its net assets and illustrates how efficiently the Bank operates to utilize further investments in order to increase its revenues. Return on Equity in banks is reflected in the following ratios: • Net income attributed to bank's shareholders net of dividend distributed in respect of preferred shares which was not recorded as an expense in profit or loss and was declared during the reporting period, divided by the average common equity; • Net income attributed to bank's shareholders net of dividend distributed to preferred shares which was not recorded as an expense in the income statement and was declared during the reporting period, divided by the average common equity net of average balance of preferred shares that were included in common equity.
Return on Risk-Adjusted Capital (RORAC)	A Rate of Return measure used to compare returns on various investments taking into account the risk. Actual return is adjusted by measuring the asset's exposure to risk and curtails the return on higher-risk assets. The method's effectiveness depends on the accuracy of the risk associated with different assets and on the extent to which the "sanction" imposed on higher-risk assets does, indeed, reflect each investor's risk aversion. Risk

	assessment of new types of assets, such as financial derivatives, involves high levels of uncertainty due to the actual behavior of their prices.
Risk-Weighted Assets (RWA) or Risk Assets	Risk-Weighted Assets reflect balance sheet and off-balance sheet exposures arising from the Bank's activities and weighted by their level of credit, market and operational risk according to Proper Conduct of Banking Business Directives No. 203 to No. 209. Such Risk Assets are designed to reflect the weighted risk in respect of which the Bank is required to comply with the Regulatory Capital Requirement as part of the Capital Adequacy requirements.
S	
Securitization	A process whereby bank loans and credit are pooled to create a long-term loan through bonds.
Securitization Structures	Structures created in order to transfer cash flows from other instruments or assets to bondholders, for which a Special-Purpose Entity (SPE) is set up that pools the underlying cash flow-generating assets that are transferred by the originator and forwards the cash-flows to the bondholders according to a structure agreed upon with the bondholders in accordance with the seniority of the different series of bonds (tranches). Such assignment of rights creates a legal structure in which the assets of the transferring entity will not be accessible to creditors of the SPE and the creditors will not be exposed to the risks associated with other activities of the transferring entity. The sole function of the SPE is to receive the said cash flows and transfer them to the bondholders.
Small Business Administration (SBA)	A U.S. government agency that supports small businesses in the U.S.A.
Special Mention Loan	Loan under Special Supervision is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loan is classified as loan under special supervision if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.
Standby Letter of Credit (SBLC)	A Standby Letter of Credit is a bank guarantee in the format of a commercial letter of credit, whose main goal is to secure a payment. A Standby Letter of Credit is similar to a guarantee in the sense that it constitutes an undertaking by the Bank to pay the amount specified therein against a payment demand by the beneficiary, whereas in the case of a commercial letter of credit one is required to present various documents in order to secure the payment by the Bank in respect of the guarantee.

Specific Provision	A provision that is determined specifically for each debt being assessed (including any restructuring of troubled debt subject to specific assessment according to the Bank's policy). The provision amount is estimated according to the projected cash flows which are discounted at the debt's original interest rate or, when the debt is defined as a debt whose collection is contingent on the fair value of the collateral - according to the fair value of the collateral net of disposal costs and after appropriate cushions are utilized. In order to determine the appropriate provision, the Bank assesses the relevant borrowers on an ongoing basis and according to procedure. Furthermore, a Specific Provision is carried out in respect of each such debt that is subject to individual review and which is 90 days overdue.
Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.
Subordinated Notes	Bonds the interests in which are subordinate to the claims of all other creditors of the bank, excluding other bonds of the same type.
Substandard Loan	A loan which is insufficiently guaranteed by the current sound worth and repayment capacity of a borrower or a pledged collateral, if any. Balance sheet credit risk that has been classified in this manner should have a well-defined weakness or weaknesses, which jeopardize the repayment of the debt. Loan, in respect of which a collective loan loss provision is recorded, shall be classified as a Substandard Loan when it has been past due for 90 days or more.
Supervisory Review Process (SREP)	The processes intended to ensure that banks have adequate capital to support all the risks associated with their business and also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. As part of the process, the Banking Supervision Department assesses a bank's risk profile and its internal process for assessing the adequacy of the regulatory capital it maintains against the exposures. This process is designed to provide regulators with tools for independent assessment of the Bank's risk profile and risk management and to enable early intervention in order to prevent compromising the Bank's financial stability.
Swap	A series of forward contracts or a series of futures contracts for several stipulated periods in which two parties agree to exchange cash flows on a notional amount.

Syndication	A transaction in which several lenders share extending a loan to a single borrower, but each borrower extends a loan at a certain amount to a borrower and has the right to be repaid by that borrower. Often, groups of lenders finance such loans together, with the amount extended greater than any single lender is willing to lend.
Synthetic Collateralized Debt Obligation (SCDO)	An agreement backed by a portfolio of (derivative) collateralized debt securities of various seniority levels.
T	
The Economic Capital Model	The Bank uses the Economic Capital Model, which is based on the borrowers' rating, in order to assess the overall credit risk of the entire loan portfolio and portions thereof.
Tier 2 Capital	A tier of capital included in the calculation of qualifying regulatory capital. Tier 2 capital (also known as "gone concern capital") is a substandard component of the Bank's capital; it mainly comprises qualifying instruments previously issued by the Bank and included in Tier 2 capital pursuant to the transitional provisions for the implementation of Basel III Directives as well as the new qualifying capital instruments that constitute the Bank's Contingent Convertible (CoCo) capital instruments issued by the Bank and which will be converted into the Bank's shares if the Bank reaches the point of non-viability. In addition, this Tier 2 capital also includes items, such as: a collective loan loss provision before the relating tax effect up to a ceiling of 1.25 percent of total credit risk assets
Total Indebtedness	A customers' total debts to the bank.
Treasury Shares	Shares directly held by the company. These shares do not have equity or voting rights.
V	
Value at Risk (VaR)	A model for measuring the maximum potential loss as a result of market risks materialization in a set time period and given a predetermined statistical probability. This method requires the revaluation of all of the corporation's positions based on the fair value of the assets and liabilities. The model's objectives are to estimate the risks to which financial institutions are exposed, stemming from materialization of market risks in various activities.