

Q3 // 2022

DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL AND ADDITIONAL INFORMATION REGARDING RISKS

This document is a translation from the Hebrew and has been prepared for convenience only. In case of any discrepancy the Hebrew will prevail

Disclosure according to the third pillar of Basel and additional information regarding risks

3	Disclosure according to the third pillar of Basel and additional information regarding risks - List of tables
4	Principal regulatory ratios and review of risk management and risk assets
4	Principal regulatory ratios (KM1)
5	General background and general reporting principles
6	The banking corporation's approach to risk management
6	Material leading and developing risks
6	Weighted risk assets review (OV1)
7	Additional information regarding risk exposure and its assessment that is not included in the Third Pillar disclosure requirements
7	Capital and leverage
7	Composition of the capital
8	Capital adequacy
8	Leverage ratio
8	Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)
9	Disclosure of the leverage ratio (LR2)
9	Credit Risk
17	The credit quality of credit exposures (CR1)
18	Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)
18	Credit risk mitigation techniques – Review (CR3)
19	Standardised approach – exposures by asset classes and risk weights (CR5)

20	Counterparty credit risk
20	Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)
21	Credit valuation adjustment (CVA) capital charge (CCR2)
22	Market Risk
28	Market risk according to the standardised approach (MR1)
29	Interest rate risk in the banking book (IRRBB)
29	Shares Risk
29	Liquidity risk
30	The liquidity coverage ratio – principal disclosures table (LIQ1)
30	Liquidity risk – qualitative disclosure and additional disclosures in respect to the liquidity coverage ratio (LIQA)
33	Net Stable Funding Ratio (LIQ2)
35	Additional risks
35	Operational risk
36	Other risks
39	Addendums
40	Glossary

Disclosure according to the third pillar of Basel and additional information regarding risks - List of tables

	Page No.
Principal regulatory ratios (KM1)	4
Weighted risk assets review (OV1)	6
Capital components for calculating ratio of capital	7
Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)	8
Disclosure of the leverage ratio (LR2)	9
Total Credit Risk Classified by Economic Sectors on a Consolidated Basis	10
The credit quality of credit exposures (CR1)	17
Methods for credit risk mitigation - Quantitative disclosure	18
Exposures according to classes of assets and risk weights	19
Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)	21
Credit valuation adjustment (CVA) capital charge (CCR2)	21
Standardised approach - exposures to counterparty credit risk (CCR) according to regulatory portfolio and risk weights (CCR3)	22
Composition of collateral with respect to counterparty credit risk exposure (CCR) (CCR5)	23
Relation between balance sheet items and the positions included in the disclosure of market risk	24
Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)	24
Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios	25
Details of the exposure in terms of - VaR in trading activity	25
Actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)	26
Accounting data as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries	27
Details of capital allocation to market risks according to the standard approach	28
The liquidity coverage ratio – principal disclosures table (LIQ1)	30
Details of the composition of the liquidity buffer	31
Distribution of the liquidity coverage ratio (average for the quarter) according to the legal entities within the Group	32
Net Stable Funding Ratio (LIQ2)	33
Available and unrestricted assets	35

The meeting of the Board of Directors held on November 22, 2022, within the framework of approval of the Bank's Report for the Third Quarter of 2022, decided to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2021 Annual Report and the Report for the Third Quarter of 2022, including in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which was published in the framework of the 2021 Annual Report.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	30.09.2022	30.06.2022	31.03.2022	31.12.2021	30.09.2021
in NIS millions					
Available capital					
Common equity tier 1	24,653	23,939	23,473	21,839	21,719
Common equity tier 1 before applying the effect of the transition	24,294	23,557	23,067	21,590	21,443
Tier 1 capital	24,653	23,939	23,473	22,017	21,897
Tier 1 capital before applying the effect of the transition	24,294	23,557	23,067	21,590	21,443
Total capital	31,013	30,214	29,605	28,988	28,271
Total capital before applying the effect of the transition	30,669	29,836	29,203	28,413	27,643
Weighted average of risk assets					
Total weighted average of risk assets	242,446	235,535	222,519	215,321	211,148
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.17	10.16	10.55	10.14	10.29
Ratio of common equity tier 1 before applying the effect of the transition	9.97	9.99	10.35	10.01	10.12
Tier I capital ratio	10.17	10.16	10.55	10.23	10.37
Tier I capital ratio before applying the effect of the transition	9.97	9.99	10.35	10.01	10.12
Ratio of total capital	12.79	12.83	13.30	13.46	13.39
Ratio of total capital before applying the effect of the transition	12.59	12.65	13.10	13.17	13.07
Ratio of common equity tier 1 required by the Supervisor of Banks	9.19	9.18	9.17	8.16	8.16
Ratio of common equity tier 1 over the required by the Supervisor of Banks	0.98	0.98	1.38	1.98	2.13
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	410,083	397,698	374,412	368,120	346,679
Leverage ratio (in %)	6.0	6.0	6.3	6.0	6.3
Leverage ratio before applying the effect of the transition (in %)	5.9	5.8	6.2	5.9	6.2
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	79,544	72,896	72,945	67,627	66,886
Total cash outflows	63,464	60,104	58,435	54,958	51,421
Liquidity coverage ratio (in %)	125.3	121.3	124.8	123.1	130.1
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	244,403	242,323	232,304	226,437	
Total required stable funding (RSF)	201,347	194,357	182,433	178,661	
Net stable funding ratio (NFSR) (in %)	121.4	124.7	127.3	126.7	

Footnote:

(1) The Directive regarding Net Stable Funding Ratio is being implemented as from December 31, 2021.

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared in accordance with the reporting directives of the Supervisor of Banks regarding "disclosure requirements detailed in the third Pillar of Basel and additional information regarding risks".

It is noted that the updated instruction has clearly defined the frequency of the quantitative and qualitative disclosure requirements. Whereas, a significant part of the disclosure requirements has been defined as disclosure required on an annual basis only, this report should be read together with the risk report published as part of the Annual Report for 2021, together with the Annual Report for 2021 and the Second Quarter of 2022 Report. For further details, see the Risks Report published as part of the Annual Report for 2021.

General reporting principles. Towards the publication of the first risk report, as part of the annual report for 2015, general reporting principles had been determined, that were validated and updated within the framework of the preparations for the implementation of the updated reporting directive, all subject to the reporting directives.

- The risk report is an integral part of the annual report, and respectively, the processes applying to the annual report shall apply to it (including: controls and procedures regarding internal control over financial reporting (SOX), statements by the President & CEO and the Chief Accounting Officer regarding the disclosure);
- In order to present an appropriate report and avoid repetition of details, it has been determined that the principal disclosure document in the risk management field would be the risk report. With respect to issues requiring disclosure in two of the documents – the extended disclosure shall be presented in the risk report while in the Chapter "Risk review" in the Board of Directors and Management report a very concise summary shall be presented, with reference to the risk report. With respect to issues that require specific disclosure relating to the "Risk review" Chapter – disclosure would generally be presented only in this chapter;
- The risk population to which the Bank relates will be in line with the risks identified and presented in the framework of the assessment of the capital adequacy (ICAAP);
- The disclosure will describe the principal activities of the Group and the significant risks, based on relevant data and information;
- The disclosures will include qualitative information and sufficient quantitative data regarding procedures of the Group for the identification, measurement and management of risks. The level of details given in the disclosures should be proportional;
- In order to assist users to understand in an optimal manner the Group's risk tolerance/risk appetite, the disclosure shall be flexible in a way that enables to reflect the manner in which senior Management and the Board of Directors assess and manage risk and strategy internally within the organization;
- A mechanism of a controlling nature has been established securing the appropriateness and relevancy of the disclosures included in the report, based on the work processes applied in the framework of assessment of the capital adequacy (ICAAP) and of the preparation of the quarterly risk document;
- Attention should be paid to especially material changes in data and to the study of the need to provide explanations for such changes.

Main developments in the first nine months of 2022

Increase in capital

On March 30, 2022, the Bank completed a process of issuing shares to the public, comprising 72,994,300 shares of a par value of NIS 0.1 each, in total consideration for approx. NIS 1,428 million. The raising of capital has been made in order to enable the Bank to continue its growth momentum and realize the existing significant potential, while focusing on areas being in the strategic center of the Bank, viz, mortgages and medium businesses, utilizing opportunities arising in the market. The raising of capital has been effected on the background of the sharp increase in yields which occurred in recent months and of the fluctuations in the market, which imbeds a significant rise in probability for the increase and force of interest rates, which temporarily affected the capital reserves and capital ratio.

Issue of debt instruments

On June 2, 2022, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements and strengthen the infrastructure for the accelerated growth strategy for the credit portfolio of the Bank. In this framework, bonds (Series "N") were issued in a total amount of approx. NIS 1 billion, and commercial securities (Series 2) in a total amount of approx. NIS 700 million.

The banking corporation's approach to risk management

For details see in the Risks Report, which was published as part of the 2021 Annual Report (pp. 7-17).

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2021 Annual Report (pp. 66-68, 113-117) and updates in the Third Quarter of 2022 Report.

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks, macro environment risk, model risks, privacy protection aspects as well as conduct risks and environment and climate risk, as the most significant developing leading risks. No material changes have taken place during the reported period with respect to the said risks, except for the macro-environment risk. For additional details see the 2021 Annual Report (pp. 26-27).

Developments in the macro-environment. The sharp fluctuations on the markets, the pace of changes and effects of the macro-economic situation, including the rise in interest rates and in inflation, as a result of the aftereffects of the Corona crisis and the effect of the war between Russia and the Ukraine, create an increased risk of global recession. The said developments may have a medium-term effect on the repayment ability of borrowers.

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.09.2022	30.06.2022	30.09.2022
in NIS millions			
Credit risk – standardised approach	207,532	203,289	25,942
Counterparty credit risk (standardised approach)	6,464	5,000	808
Credit valuation adjustment (CVA)	2,154	1,526	269
Securitization exposure (standardised approach)	278	272	35
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,745	5,268	718
Total credit risk	222,173	215,355	27,772
Market risk (standardised approach)	4,294	4,690	537
Operational risk	15,979	15,490	1,997
Total	242,446	235,535	30,306

Disclosure regarding the linkage between the balance sheet and the regulatory capital components

For details regarding the required adjustments between the balance sheet in the published financial statements and

the regulatory capital components, see the Risks Report, which was published as part of the 2021 Annual Report (pp. 120–129).

Additional information regarding risk exposure and its assessment that is not included in the Third Pillar disclosure requirements

For details regarding the summary of movement and changes in risk-weighted assets and regarding the linkage between the weighted risk assets and the business transactions and the related risks, according to the Bank's regulatory operating segments, see the Risks Report, which was published as part of the 2021 Annual Report (p. 20).

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	September 30,		December 31,
	2022	2021	2021
	in NIS millions		
A. Common Equity Tier 1			
Common equity	24,718	22,006	22,148
Difference between common equity and common equity tier 1	(233)	(399)	(395)
Total common equity tier 1 before supervisory adjustments and deductions	24,485	21,607	21,753
Supervisory adjustments and deductions			
Goodwill and other intangible assets	163	196	195
Supervisory adjustments and other deductions	29	4	8
Total supervisory adjustments and deductions before effect of adjustments in respect of the efficiency plan and before effect of adjustment in respect of expected credit losses	192	200	203
Total adjustments in respect to the efficiency plan	225	312	289
Total adjustments in respect of expected credit losses	135	-	-
Total common equity tier 1 after supervisory adjustments and deductions	24,653	21,719	21,839
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	-	178	178
Total additional tier 1 capital after deductions	-	178	178
C. Tier 2 capital			
Instruments before deductions	3,483	3,886	4,431
Allowance for credit losses before deductions	2,777	2,402	2,452
Minority interests in a subsidiary	100	86	88
Total tier 2 capital before deductions	6,360	6,374	6,971
Deductions	-	-	-
Total tier 2 capital	6,360	6,374	6,971

For details regarding the connection between the balance sheet and the components of the regulatory capital, see the Risks Report, which was published as part of the 2021 Annual Report (pp. 120–129).

Capital adequacy

For details regarding "Evaluation of capital adequacy" as well as "Capital planning process", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review as stated (pp. 25–29).

Leverage ratio

General. The leverage ratio is defined as the capital measurement divided by the exposure measurement. The capital for the purpose of this measurement is the common equity tier 1. The exposure measurement is the sum of the balance-sheet exposures, the exposures to derivatives, the exposures to securities funding transactions and off-balance-sheet items (for details regarding the factors which may affect the leverage ratio, see Note 25 item 2 to the financial statements as of December 31, 2021, p. 232).

Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)

	September 30,		December 31,
	2022	2021	2021
	NIS millions		
Total assets according to the consolidated financial statements	379,074	313,411	335,088
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments in respect of derivative financial instruments	(4,956)	38	(190)
Adjustments in respect of SFTs	-	130	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	34,048	30,900	31,110
Other adjustments	1,917	2,200	2,112
Exposure for the purpose of the leverage ratio	410,083	346,679	368,120

Disclosure of the leverage ratio (LR2)

	September 30, 2022	December 31, 2021	December 31, 2021
NIS millions			
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	361,870	307,503	326,583
Asset amounts deducted in determining Tier 1 capital	(182)	(196)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	361,688	307,307	326,388
Derivative exposures			
Replacement cost associated with all derivatives transactions	4,718 ⁽²⁾	1,873	2,836
Add-on amounts for PFE associated with all derivatives transactions	3,927 ⁽²⁾	2,544	2,507
Gross-up for derivatives collateral provided which were deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-	-
Exempted CCP leg of client-cleared trade exposures	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-	-
Total derivative exposures	8,645	4,417	5,343
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	5,702	3,925	5,280
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	-	130	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	5,702	4,055	5,280
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	135,086	122,808	125,560
Adjustments for conversion to credit equivalent amounts	(101,038)	(91,908)	(94,450)
Total off-balance sheet items	34,048	30,900	31,110
Capital and total exposures			
Tier 1 capital	24,653 ⁽¹⁾	21,897 ⁽¹⁾	22,017 ⁽¹⁾
Total exposures	410,083	346,679	368,120
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.0	6.3	6.0

Footnotes:

- (1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks in respect of the efficiency plans.
- (2) The amounts of exchange costs and the addition in respect of the future potential exposure multiplied by the Alpha coefficient used for the computation of the regulatory exposure at default (EAD), according to the standardised approach to counterparty credit risk (SA-CCR).

Credit Risk

General. Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.

For general information regarding credit risk quality (CRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 33-40) and in the Second Quarter of 2022 Report.

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

September 30, 2022											
Total Credit Risk ⁽¹⁾					Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
					Credit Losses ⁽⁴⁾						
					Net						
					Of which: Credit Write-Offs Accounting						
					Of which: Non- Loss (Collection) Balance						
					Of which: accruing Expenses Recognized Allowance						
Total ⁽⁹⁾	Of which: Credit Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating		Of which: Total Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	risk	release	Period	for Credit Losses	
in NIS millions											
Lending Activity in Israel											
Agriculture	1,631	1,571	17	43	1,627	1,347	17	7	-	2	29
Mining & Quarrying	373	372	-	1	373	284	-	1	(4)	(2)	7
Industry	16,461	15,685	472	304	15,975	9,231	472	184	(7)	14	265
Construction and Real Estate - Construction	46,950 ⁽⁶⁾	45,942	562	446	46,935 ⁽⁶⁾	21,609	562	289	112	10	466
Construction and Real Estate - Real Estate Activity	16,296	15,737	348	211	16,232	14,478	347	212	56	2	320
Electricity and Water	5,964	5,948	12	4	5,195	3,680	12	-	23	-	95
Commerce	25,137	24,004	444	689	24,748	20,015	443	130	(49)	21	298
Hotels, Hotel Services and Food	2,159	1,966	121	72	2,146	1,802	121	14	(21)	(1)	40
Transportation and Storage	6,885	6,451	298	136	6,665	5,490	298	117	(21)	4	123
Communication and Computer Services	2,806	2,484	85	237	2,688	1,671	85	46	8	1	46
Financial Services	22,793	22,425	48	320	18,950	13,799	48	26	(13)	-	107
Other Business Services	8,556	7,945	157	454	8,523	6,081	157	44	(27)	23	155
Public and Community Services	11,625	11,074	338	213	11,614	10,121	338	6	38	(2)	140
Total Commercial	167,636	161,604	2,902	3,130	161,671	109,608	2,900	1,076	95	72	2,091
Private Individuals - Housing Loans	72,174	67,997	306	3,871	72,174	63,036	306	233	45	7	254
Private Individuals - Other	73,195	70,638	449	2,108	73,188	32,397	449	76	129	69	828
Total Public	313,005	300,239	3,657	9,109	307,033	205,041	3,655	1,385	269	148	3,173
Banks in Israel	3,037	3,037	-	-	2,248	2,219	-	-	-	-	1
Israeli Government	25,771	25,771	-	-	980	980	-	-	-	-	-
Total Lending Activity in Israel	341,813	329,047	3,657	9,109	310,261	208,240	3,655	1,385	269	148	3,174

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	September 30, 2022										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Of which: Credit Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Of which: Non- accruing credit risk	Credit Losses ⁽⁴⁾		
									Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Lending Activity Outside of Israel											
Agriculture	144	39	-	105	144	122	-	-	-	-	1
Mining & Quarrying	338	338	-	-	-	-	-	-	-	-	-
Industry	5,865	5,519	210	136	5,413	3,605	210	39	(1)	22	37
Construction and Real Estate - Construction	198	198	-	-	198	64	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	14,083	12,599	560	924	13,916	11,715	559	27	(49)	(53)	113
Electricity and Water	785	785	-	-	428	310	-	-	(3)	-	4
Commerce	10,840	9,986	404	450	10,831	8,295	403	2	6	2	83
Hotels, Hotel Services and Food	1,992	1,324	531	137	1,979	1,908	528	79	(31)	-	11
Transportation and Storage	1,000	1,000	-	-	809	783	-	-	(9)	-	12
Communication and Computer Services	327	271	56	-	257	191	56	3	1	-	3
Financial Services	11,199	11,112	-	87	2,219	1,501	-	-	(2)	-	23
Of which: Federal agencies in the U.S. ⁽⁷⁾	7,389	7,389	-	-	-	-	-	-	-	-	-
Other Business Services	1,003	934	68	1	891	558	68	-	1	-	13
Public and Community Services ⁽⁸⁾	4,991	4,039	377	575	4,529	4,218	374	-	(8)	-	41
Total Commercial	52,765	48,144	2,206	2,415	41,614	33,270	2,198	150	(95)	(29)	342
Private Individuals - Housing Loans	407	400	-	7	407	405	-	-	1	-	12
Private Individuals - Other	2,101	1,975	48	78	2,095	1,316	48	-	-	-	6
Total Public	55,273	50,519	2,254	2,500	44,116	34,991	2,246	150	(94)	(29)	360
Banks Outside of Israel	6,354	6,354	-	-	3,657	3,560	-	-	-	-	6
Governments Outside of Israel	8,219	8,219	-	-	2,444	1,620	-	-	2	-	26
Total Lending Activity Outside of Israel	69,846	65,092	2,254	2,500	50,217	40,171	2,246	150	(92)	(29)	392
Total	411,659	394,139	5,911	11,609	360,478	248,411	5,901	1,535	177	119	3,566

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, credit risk of assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 248,411 million, NIS 40,749 million, NIS 1,271 million, NIS 4,806 million, NIS 116,422 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet, credit risk, which is non-accruing, substandard or under special mention.
- (6) Including acquisition groups in an amount of NIS 441 million.
- (7) Including mortgage backed securities in the amount of NIS 7,141 million, issued by GNMA and in the amount of NIS 250 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 9,101 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 202 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

		September 30, 2021									
Total Credit Risk ⁽¹⁾		Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾									
		Of which:		Non-problematic credit risk, not in credit granting rating		Of which:		Credit Losses ⁽⁴⁾			
Total ⁽⁹⁾	Rating ⁽¹⁰⁾	Performance	Problematic credit risk ⁽⁵⁾	granting rating	Total Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Of which: Non-risk	Periodic Expenses (expense release)	Accounting Write-Offs (Collection) during the Period	Net Balance of Allowance for Credit Losses	
in NIS millions											
Lending Activity in Israel											
Agriculture	1,515	1,469	18	28	1,506	1,213	18	6	3	2	19
Mining & Quarrying	403	368	35	-	392	223	35	34	(2)	-	4
Industry	16,665	15,762	697	206	16,536	9,828	697	228	-	21	318
Construction and Real Estate - Construction	42,757 ⁽⁶⁾	41,682	477	598	42,728 ⁽⁶⁾	19,496	477	141	(14)	23	307
Construction and Real Estate - Real Estate Activity	13,794	13,337	265	192	13,743	11,793	259	86	(32)	(1)	194
Electricity and Water	4,939	4,912	14	13	4,300	3,149	14	1	(3)	3	21
Commerce	22,957	21,970	561	426	22,679	18,190	558	98	(187)	(54)	427
Hotels, Hotel Services and Food	2,342	1,899	328	115	2,342	1,997	329	86	(48)	(1)	57
Transportation and Storage	6,574	6,061	407	106	6,341	5,191	407	184	(10)	8	158
Communication and Computer Services	2,418	2,314	51	53	2,378	1,693	51	43	(57)	(26)	78
Financial Services	19,555	19,433	56	66	17,004	10,731	56	1	(25)	(7)	78
Other Business Services	7,803	7,095	266	442	7,765	5,381	266	102	(59)	5	170
Public and Community Services	10,726	10,557	61	108	10,721	9,137	61	13	(21)	(2)	35
Total Commercial	152,448	146,859	3,236	2,353	148,435	98,022	3,228	1,020	(455)	(29)	1,866
Private Individuals - Housing Loans	56,876	54,823	275	1,778	56,876	50,113	275	1	(2)	4	250
Private Individuals - Other	66,020	63,917	537	1,566	66,015	28,927	537	70	(127)	22	824
Total Public	275,344	265,599	4,048	5,697	271,326	177,062	4,040	1,092	(584)	(3)	2,940
Banks in Israel	2,013	2,013	-	-	1,000	878	-	-	-	-	-
Israeli Government	32,717	32,717	-	-	2,041	1,364	-	-	-	-	-
Total Lending Activity in Israel	310,073	300,328	4,048	5,697	274,367	179,304	4,040	1,092	(584)	(3)	2,940

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	September 30, 2021										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁵⁾	Of which: Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Non-accruing credit risk	Credit Losses ⁽⁴⁾		
									Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Lending Activity Outside of Israel											
Agriculture	230	48	-	182	230	164	-	-	-	-	2
Mining & Quarrying	342	342	-	-	5	5	-	-	-	-	-
Industry	5,457	5,183	55	219	5,073	2,891	54	54	(33)	-	38
Construction and Real Estate -											
Construction	145	140	-	5	145	131	-	-	(30)	(29)	1
Construction and Real Estate - Real Estate Activity	11,920	9,757	1,395	768	11,631	10,207	1,321	124	(22)	12	197
Electricity and Water	933	933	-	-	554	339	-	-	1	-	2
Commerce	8,925	8,396	165	364	8,800	5,891	165	-	(11)	27	56
Hotels, Hotel											
Services and Food	1,824	520	1,180	124	1,808	1,743	1,180	203	(12)	-	60
Transportation and Storage	967	967	-	-	790	759	-	-	(1)	-	7
Communication and Computer Services	384	381	3	-	243	204	3	3	-	-	2
Financial Services	10,373	10,259	35	79	2,277	1,521	35	-	2	-	8
Of which: Federal agencies in the U.S. ⁽⁷⁾	6,661	6,661	-	-	-	-	-	-	-	-	-
Other Business											
Services	920	845	74	1	808	492	74	-	(1)	-	7
Public and Community Services ⁽⁸⁾	4,954	4,222	394	338	4,357	4,039	391	-	(1)	-	34
Total Commercial	47,374	41,993	3,301	2,080	36,721	28,386	3,223	384	(108)	10	414
Private Individuals -											
Housing Loans	240	231	6	3	240	231	6	-	-	-	2
Private Individuals - Other	2,023	1,976	42	5	2,022	1,265	42	-	2	-	7
Total Public	49,637	44,200	3,349	2,088	38,983	29,882	3,271	384	(106)	10	423
Banks Outside of											
Israel	3,674	3,674	-	-	2,198	2,120	-	-	-	-	-
Governments Outside of Israel	5,588	5,588	-	-	1,763	1,763	-	-	7	-	22
Total Lending Activity Outside of Israel	58,899	53,462	3,349	2,088	42,944	33,765	3,271	384	(99)	10	445
Total	368,972	353,790	7,397	7,785	317,311	213,069	7,311	1,475	(683)	7	3,385

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, credit risk of assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 213,069 million, NIS 44,453 million, NIS 1,142 million, NIS 4,367 million, NIS 105,941 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 265 million.
- (7) Including mortgage backed securities in the amount of NIS 6,252 million, issued by GNMA and in the amount of NIS 408 million, issued by FNMA and FHLMLC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,852 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 248 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2021										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Of which: Credit Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Credit Losses ⁽⁴⁾			
								Of which: Non- accruing credit risk	Periodic Credit Loss Expenses (expense release)	Accounting Write-Offs (Collection) Recognized during the Period	Net Balance of allowance for credit loss
in NIS millions											
Lending Activity in Israel											
Agriculture	1,534	1,446	19	69	1,524	1,236	19	5	2	1	19
Mining & Quarrying	380	347	32	1	369	220	32	31	2	-	7
Industry	15,204	14,313	526	365	15,079	9,010	526	184	(18)	36	282
Construction and Real Estate											
- Construction	43,155 ⁽⁶⁾	42,411	639	105	43,135 ⁽⁶⁾	20,147	639	208	43	35	351
Construction and Real Estate - Real Estate Activity	14,237	13,853	356	28	14,186	12,175	355	92	(15)	(5)	213
Electricity and Water	5,241	5,203	13	25	4,546	2,935	13	3	(3)	3	21
Commerce	22,892	21,938	532	422	22,451	18,014	532	131	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	2,305	1,976	291	57	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	6,118	5,073	382	163	(19)	18	139
Communicatio n and Computer Services	2,400	2,311	52	37	2,366	1,657	52	43	(58)	(27)	77
Financial Services	22,375	22,294	54	27	19,613	13,924	54		(12)	(6)	91
Other Business Services	8,228	7,563	255	410	8,180	5,823	255	91	(67)	6	163
Public and Community Services	11,004	10,842	62	100	10,998	9,313	62	7	(21)	(2)	35
Total Commercial	155,314	150,356	3,213	1,745	150,870	101,503	3,212	1,015	(407)	7	1,870
Private Individuals - Housing Loans	63,655	59,955	275	3,425	63,655	53,650	275	-	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	67,429	30,200	524	72	(169)	38	765
Total Public	286,406	275,650	4,012	6,744	281,954	185,353	4,011	1,087	(570)	51	2,890
Banks in Israel	2,549	2,549	-	-	1,348	1,300	-	-	-	-	-
Israeli Government	28,893	28,893	-	-	1,659	1,131	-	-	-	-	-
Total Lending Activity in Israel	317,848	307,092	4,012	6,744	284,961	187,784	4,011	1,087	(570)	51	2,890

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2021										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Of which: Credit Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total ⁽⁹⁾	Of which:			Of which: Non- accruing credit risk	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
					Total	Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾				
in NIS millions											
Lending Activity Outside of Israel											
Agriculture	175	49	-	126	175	162	-	-	(1)	-	2
Mining & Quarrying	332	332	-	-	-	-	-	-	-	-	-
Industry	5,437	5,190	72	175	4,984	3,055	72	39	(45)	-	55
Construction and Real Estate - Construction	142	142	-	-	142	123	-	-	(29)	(29)	1
Construction and Real Estate - Real Estate Activity	11,811	10,065	790	956	11,552	10,324	751	70	(52)	(2)	158
Electricity and Water	892	892	-	-	540	351	-	-	1	-	1
Commerce	9,403	8,843	435	125	9,280	6,549	435	40	27	27	66
Hotels, Hotel Services and Food	1,752	518	981	253	1,738	1,671	981	185	(49)	-	50
Transportation and Storage	976	976	-	-	814	793	-	-	(2)	-	6
Communication and Computer Services	354	351	3	-	218	154	3	3	9	9	1
Financial Services	10,706	10,600	41	65	2,302	1,607	41	-	(4)	-	8
Of which: Federal agencies in the U.S. ⁽⁷⁾	7,031	7,031	-	-	-	-	-	-	-	-	-
Other Business Services	901	825	74	2	821	538	74	-	-	-	5
Public and Community Services ⁽⁸⁾	4,772	4,163	408	201	4,225	3,889	406	-	5	-	35
Total Commercial	47,653	42,946	2,804	1,903	36,791	29,216	2,763	297	(127)	5	388
Private Individuals - Housing Loans	299	292	5	2	299	294	5	-	-	-	3
Private Individuals - Other	2,059	2,018	38	3	2,058	1,333	38	-	(3)	-	8
Total Public	50,011	45,256	2,847	1,908	39,148	30,843	2,806	297	(130)	5	399
Banks Outside of Israel	4,442	4,442	-	-	2,495	2,412	-	-	-	-	-
Governments Outside of Israel	6,420	6,420	-	-	1,533	1,533	-	-	7	-	22
Total Lending Activity Outside of Israel	60,873	56,118	2,847	1,908	43,176	34,788	2,806	297	(123)	5	421
Total	378,721	363,210	6,859	8,652	328,137	222,572	6,817	1,384	(693)	56	3,311

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, credit risk of assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 222,572 million, NIS 42,251 million, NIS 1,207 million, NIS 5,524 million, NIS 107,167 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, standard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 313 million.
- (7) Including mortgage backed securities in the amount of NIS 6,673 million, issued by GNMA and in the amount of NIS 358 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,633 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 252 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit Exposure to Foreign Financial Institutions

About 97% of the exposure as of September 30, 2022, is to financial institutions rated "A-" rating or higher, compared with about 91% as of December 31, 2021. For additional details, see the Report for the Third Quarter of 2022.

Drafts and Instructions published during the first nine months of 2022

Update of Proper Conduct of Banking business Directive No. 451 – Procedures for the granting of housing loans. An update of the Directive was published on January 31, 2022, in which it is stated that banks are required to: (1) make available to the public an online calculator enabling simulations of different mixes of loans for different time ranges, in order to obtain an assessment of the effect of changes in the mix on the monthly repayment amount and the total amount payable until the end of the loan period; (2) a banking corporation will provide the customer with an approval in principle within five business days from date of submission of the request for a loan, as stated. In exceptional cases of loans the characteristics of which are to be defined in advance in the credit policy of the banking corporation, the approval in principle should be given within seven business days, and a notice to the customer should be delivered regarding the reason for the extra time required to process his request for the loan.

The update states the information that a banking corporation is required to present on the Internet Application offered to its customers. It is further stated that, at the request of the customer, the required information would be delivered to the customer in writing up to twice in each calendar year, with no commission being charged for this service. Furthermore, rules were defined for the computation of the "forecasted total interest". In this framework, formulas were determined for this calculation as well as a Table showing the reference of the classes of loans to the relating forecasts.

Addendum No. 6 to the Directive details the data that a bank is required to present in the approval in principle document. Required to be presented are three uniform loan types plus one offered loan track. Also required to be presented are details of the forecasted total interest and the highest amount of the monthly repayments expected according to the forecast. The above updates take effect on August 31, 2022.

A circular issued on July 7, 2022, provides response to questions that had been raised regarding the manner of integrating entitlement loans in the approval in principle granted to the customer, with respect to the information provided to the customer for the purpose of considering the advisability of a premature repayment of the loan, and with respect to the contents of the online calculator.

Sale of housing loans and cooperation regarding extension of housing loans. A circular was published on October 6, 2022, updating Proper Conduct of Banking Business Directive No. 329B in the matter of sale of housing loans and cooperation in regarding extension of housing loans – the Directive regulates principles for transacting such operations intended, inter alia, to protect the rights of borrowers included in the sold loan portfolios, to prevent situations of negative selection affecting the quality of the credit portfolio of the bank and to avoid development of moral risk to the acquiring entity. The Directive states limitations, such as: the volume of sale transactions for housing loans – the amount of housing loans to be sold, together with the amount of housing loans under responsibility of the institutional body in a syndication transaction, to which the bank provides a material service, shall not exceed 10% of the balance of the housing loan portfolio. Notwithstanding the above, a possibility exists for deviation from the said maximum amount subject to an examination, and a decision of the board of directors of the bank and to approval by the Supervisor of Banks.

Credit risk applying to the construction and real estate sector. On March 20, 2022, the Supervisor of Banks published a letter headed "The rise in credit risk relating to the construction and real estate sector", in which the Supervisor informed of his intention to apply regulatory measures that include a demand for an additional capital allocation regarding the finance of highly leveraged land purchases, delivery of samples representing the underwriting and classification of credit and expansion of reports to the Supervisor regarding the construction and real estate sector.

In continuation thereof, an Amendment to Proper Conduct of Banking Business Directive No. 203, was published on May 22, 2022, in the matter of the standardised approach to the measurement of credit risk and capital adequacy, according to which the list of debts averaged at the rate of 150% risk would include loans intended to finance the purchase of land for development or building purposes at a rate exceeding 80% of the value of the purchased property, excluding loans financing the purchase of agricultural land having no planning horizon or intention to file a request for a change in zoning, and loans financing the purchase of land for the personal use of a borrower who is not classified to the construction and real estate sector. The Amendment takes effect on June 30, 2022, though the effect of the existing amount of loans on the capital adequacy ratio may be spread at fixed quarterly installments until June 30, 2023 (beginning with the third quarter of 2022).

A final circular was published in the matter on July 24, 2022, according to which, starting with the report as of June 30, 2022, disclosure would be provided regarding the expected effect of the implementation of the Amendment. Spreading would be over a period of four quarters, would begin with the third quarter of 2022, in a way that in the second quarter of 2023, the effect would be fully reflected.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Non-accruing debts or in arrears for 90 days or over	Other		
September 30, 2022				
in NIS millions				
Debts, excluding bonds	1,598	242,286	3,172	240,712
Bonds	1	38,026	-	38,027
Off-balance sheet exposure	46	130,198	384	129,860
Total	1,645	410,510	3,556	408,599

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
September 30, 2021				
in NIS millions				
Debts, excluding bonds	3,758	206,378	3,124	207,012
Bonds	7	41,534	-	41,541
Off-balance sheet exposure	42	118,806	246	118,602
Total	3,807	366,718	3,370	367,155

December 31, 2021				
Debts, excluding bonds	3,149	215,166	3,040	215,275
Bonds	1	40,135	-	40,136
Off-balance sheet exposure	55	121,035	249	120,841
Total	3,205	376,336	3,289	376,252

For details regarding changes in the balance of impaired debts (CR2) and for the additional disclosure regarding the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 41).

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

For details regarding credit risk mitigation and mitigating the risk in respect of credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 51-52).

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured			Secured					
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
in NIS millions									
September 30, 2022									
Debts, excluding bonds	197,420	43,292	16,682	36,185	9,575	7,107	7,107	-	-
Bonds	38,027	-	-	-	-	-	-	-	-
Total	235,447	43,292	16,682	36,185	9,575	7,107	7,107	-	-
Of which: non-accruing debts or in arrears for 90 days or over	1,170	805	366	196	24	609	342	-	-
September 30, 2021									
Debts, excluding bonds	170,380	36,632	14,422	30,667	8,457	5,965	5,965	-	-
Bonds	41,541	-	-	-	-	-	-	-	-
Total	211,921	36,632	14,422	30,667	8,457	5,965	5,965	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,169	1,753	938	207	61	1,546	877	-	-
December 31, 2021									
Debts, excluding bonds	175,202	40,073	16,129	33,279	9,335	6,794	6,794	-	-
Bonds	40,136	-	-	-	-	-	-	-	-
Total	215,338	40,073	16,129	33,279	9,335	6,794	6,794	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,218	1,478	794	143	48	1,335	746	-	-

:Note

(1) Not including an accumulating impaired debt in the amount of NIS 443 million at September 30, 2021 and NIS 404 million at December 31, 2021.

Standardised approach – exposures by asset classes and risk weights (CR5)

Exposures according to classes of assets and risk weights

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
in NIS millions									
September 30, 2022									
Sovereigns, their central banks and national monetary authority	100,282	13	-	-	-	-	113	220	100,628
Public sector entities (PSE) which are not central governments	1,705	8,215	-	1,451	-	-	57	-	11,428
Banks (including multilateral development banks)	-	9,794	-	80	-	-	42	-	9,916
Securities corporations	-	529	-	-	-	-	-	-	529
Corporations	-	13,278	-	870	-	-	109,715	1,158	125,021
Retail exposures for private individuals	-	-	-	-	-	33,902	324	-	34,226
Loans to small businesses	-	-	-	-	-	14,468	24	-	14,492
Secured by residential property	-	-	15,888	20,744	18,438	8,195	1,249	-	64,514
Secured by commercial real estate	-	-	-	-	-	-	4,657	-	4,657
Loans in arrears	-	-	-	-	-	-	545	1,193	1,738
Other assets	2,116	37	-	-	-	-	7,648	1,538	11,339
Of which: in respect of shares	-	-	-	-	-	-	751	1,124	1,875
Total	104,103	31,866	15,888	23,145	18,438	56,565	124,374	4,109	378,488
September 30, 2021									
Sovereigns, their central banks and national monetary authority	81,478	39	-	-	-	-	173	11	81,701
Public sector entities (PSE) which are not central governments	1,666	7,868	-	1,409	-	-	12	-	10,955
Banks (including multilateral development banks)	-	7,514	-	75	-	-	25	-	7,614
Corporations	-	9,902	-	999	-	-	100,863	349	112,113
Retail exposures for private individuals	-	-	-	-	-	30,150	126	-	30,276
Loans to small businesses	-	-	-	-	-	13,207	5	-	13,212
Secured by residential property	-	-	13,868	16,364	11,712	8,363	820	-	51,127
Secured by commercial real estate	-	-	-	-	-	-	4,328	-	4,328
Loans in arrears	-	-	-	-	-	-	538	1,362	1,900
Other assets	2,417	29	-	-	-	-	6,109	1,266	9,821
Of which: in respect of shares	-	-	-	-	-	-	602	916	1,518
Total	85,561	25,352	13,868	18,847	11,712	51,720	112,999	2,988	323,047
December 31, 2021									
Sovereigns, their central banks and national monetary authority	92,639	63	-	-	-	-	167	-	92,869
Public sector entities (PSE) which are not central governments	1,447	8,362	-	1,383	-	-	79	-	11,271
Banks (including multilateral development banks)	-	7,842	-	113	-	-	31	-	7,986
Securities corporations	-	209	-	-	-	-	-	-	209
Corporations	-	11,655	-	860	-	-	99,371	299	112,185
Retail exposures for private individuals	-	-	-	-	-	31,335	137	-	31,472
Loans to small businesses	-	-	-	-	-	13,832	25	-	13,857
Secured by residential property	-	-	14,455	17,631	13,396	8,398	887	-	54,767
Secured by commercial real estate	-	-	-	-	-	-	4,317	-	4,317
Loans in arrears	-	-	-	-	-	-	798	1,104	1,902
Other assets	2,225	34	-	-	-	-	6,313	1,333	9,905
Of which: in respect of shares	-	-	-	-	-	-	632	990	1,622
Total	96,311	28,165	14,455	19,987	13,396	53,565	112,125	2,736	340,740

Footnote:

(1) Improvement of data.

Counterparty credit risk

For a qualitative disclosure related to counterparty credit risk (CCRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 57–58).

Instructions published during the first nine months of 2022

Directive regarding the standardised approach for measuring counterparty credit risk exposures. In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardised approach for measuring counterparty credit risk exposures SA-CCR". On December 1, 2021, the Supervisor of Banks published the Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk in accordance with the SA-CCR. The applicable date as from July 1, 2022. The said approach replaced the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the CEM approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part as a derivative of accepted netting agreements (such as CSA).

On March 15, 2022, an update was published to Directive 203A, which was published in December 2021, the essence of which are clarifications to issues raised (Q&A).

For details regarding the impact of the implementation of the new directive, see "Capital and Capital Adequacy" in the Third Quarter of 2022 Report.

Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)

	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
September 30, 2022 in NIS millions					
Standardised approach to counterparty credit risk – SA-CCR (for derivatives)	3,002	2,536	1.4	7,754	3,232
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	-	4,665	3,067
Total	3,002	2,536	-	12,587	6,363
September 30, 2021 in NIS millions					
Current exposure method	1,808	2,012		3,434	1,869
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-		2,470	1,324
Total	1,808	2,012		5,904	3,193
December 31, 2021 in NIS millions					
Current exposure method	2,770	2,074		4,187	2,185
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-		3,570	2,362
Total	2,770	2,074		7,757	4,547

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
in NIS millions		
September 30, 2022		
Total portfolios for which CVA is calculated according to the standardised approach	7,845	2,154
September 30, 2021		
Total portfolios for which CVA is calculated according to the standardised approach	3,356	1,542
December 31, 2021		
Total portfolios for which CVA is calculated according to the standardised approach	4,161	1,656

The increase in the allocation of capital in respect of the adjustment of revaluation to credit risk stems from an increase in the derivatives activity with customers.

Standardised approach - exposures to counterparty credit risk (CCR) according to regulatory portfolio and risk weights (CCR3)

	0%	20%	50%	75%	100%	Total credit exposure
in NIS millions						
September 30, 2022						
Sovereigns	1,304	-	-	-	-	1,304
Public sector entities (PSE) which are not central governments	-	463	-	-	-	463
Banks (including multilateral development banks)	-	3,066	-	-	-	3,066
Securities corporations	-	2,584	-	-	-	2,584
Corporations	-	-	59	-	5,057	5,116
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	35	35
Small business	-	-	-	-	19	19
Total	1,304	6,113	59	-	5,111	12,587
December 31, 2021						
Sovereigns	1,247	-	-	-	-	1,247
Public sector entities (PSE) which are not central governments	-	480	-	-	-	480
Banks (including multilateral development banks)	-	1,638	-	-	3	1,641
Securities corporations	-	280	-	-	-	280
Corporations	-	50	7	-	4,022	4,079
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	2	26	28
Small business	-	-	-	1	1	2
Total	1,247	2,448	7	3	4,052	7,757

Composition of collateral with respect to counterparty credit risk exposure (CCR) (CCR5)

	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral obtained		Fair value of collateral deposited		Fair value of collateral obtained	Fair value of collateral deposited
	Detached	Undetached	Detached	Undetached		
in NIS millions						
September 30, 2022						
Cash – local currency	843	65		264	-	-
Cash – other currencies	-	2,885	-	1,760	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	328	-	-	1,655	-
Total	843	3,278		2,023	1,655	-
December 31, 2021						
Cash – local currency	29	89	196	22	-	-
Cash – other currencies	-	364	-	1,863	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	183	-	-	1,953	-
Total	29	636	196	1,885	1,953	-

Market Risk

For the general qualitative disclosure regarding market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 61–76).

Quantitative disclosure

(1) Limitations set by the Board of Directors

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 65).

(2) Interest Risk Exposure

General

The risk of loss, stemming from parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.

Relation between balance sheet items and the positions included in the disclosure of Market risk

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held by the "Nostro" unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information regarding exposure to market risk" below.

The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

Relation between balance sheet items and the positions included in the disclosure of market risk

Assets	Affect of	Affect of	Liabilities	Affect of	Affect of
	100BP as of	100BP as of		100BP as of	100BP as of
	September	December		September	December
	30, 2022	31, 2021		30, 2022	31, 2021
in NIS millions					
Credit	3,013	2,778	Deposits	1,255	971
Available-for-sale securities portfolio	747	1,341	Debt notes	421	502
Trading securities portfolio	17	56	Off balance-sheet (derivatives)	74	137
Held-to-maturity securities portfolio	594	479	Current account spreading	1,843	2,090
Off balance-sheet (derivatives)		-	Employee rights	263	320
Other	26	32	Other	-	-
Total	4,397	4,686	Total	3,856	4,019

(3) Additional information – models and risk indices

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 67–70).

Principal indices for management

Index for the sensitivity of economic value to changes in interest rates. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 68).

Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)

	For the period ending			
	September 30, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
in NIS millions				
Actual exposure	(541)	(685)	(667)	(742)
Limitation set by the Board of Directors	(1,676)	-	(1,520)	-
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 68).

Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios

	For the period ended on:			
	September 30, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(398)	(609)	(624)	(624)
Limitation set by the Board of Directors	(1,676)	-	(1,520)	-

Indices and additional models

The Value at Risk (VaR)

The VaR of trading operations. The VaR for the trading activity is calculated at daily intervals using the historical (hybrid) method, using a confidence level of 99% and a time horizon of one day.

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the third quarter of 2022.

During the third quarter, in view of the high volatility in the markets, the Bank reported to the Board of Directors regarding indicators identifying the development of a stress situation in the markets. Respectively, limitations and control processes stated in the policy with respect to such situation have been put into action.

This estimate serves as one of the main tools in the management of the trading activity.

Details of the exposure in terms of - VaR in trading activity

	Third quarter		End of year	
	2022		2021	
	End of reported quarter	Maximum exposure during the quarter	End of year 2021	Maximum exposure during the year
	in NIS millions			
Actual exposure	17.1	31.8	10.7	16.3
Limitation set by the Board of Directors	50	-	30	-

Footnote:

The VaR calculated for 1 business day and profitability of 99%.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 69-70).

For details regarding loss analysis in extreme scenarios (Stress Tests) and analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 70).

(4) Inflation and exchange rate exposure

The Bank's Exposures to inflation and foreign currency exchange rates is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements as of December 31, 2021. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).

Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB New York has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

The exposure is measured separately for each material currency.

Actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)

Segment	Third Quarter 2022					Year 2021			
	Limitation	Period end	From	To	Average	Year end	From	To	
CPI linked*	50%-(50%)	24.1%	24.1%	31.6%	27.6%	10.9%	1.7%	16.9%	
Foreign currency	15% - 30%	17.4%	17.4%	18.0%	17.6%	18.0%	17.1%	19.1%	

Footnote:

* Timing of economic position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.

In the Bank's opinion, the exposure to the various linkage bases at the end of the period characterizes the exposure during the period.

(5) Management of positions in the trading portfolio

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

As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

Activity in derivative financial instruments. The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions is made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

The market exposures, which are created as a result of activity in derivative financial instruments, both for inflation and foreign currency exchange rates and also for interest, are included within the framework of the Board of Directors' various limits. The counterparty exposures are managed under agreements for the transfer and set-off of collateral and vis-à-vis central clearing houses.

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers or its own account). In addition, limits of the Head of the Financial Markets Division were set for the scope of activity according to the types of instruments intended to delimit the operational risk involved in its activity. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2022.

The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.

Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself.

Accounting data as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

	September 30, 2022	December 31, 2021
	in NIS millions	
Not for trading derivatives	78,495	52,708
Of which: hedging derivatives	9,317	4,876
Trading derivatives	387,750	294,872
Total	466,245	347,580

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2021 (pp. 157-158, 247-253).

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis to the statements of profit and loss while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions".

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements as of December 31, 2021 (p. 168).

Option risks. Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– vanilla options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. In addition, the document by the Head of the Financial Markets Division includes limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS") and limitations as regards to overall volume.

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2022.

Market risk according to the standardised approach (MR1)

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardised approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest and shares risks resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York in accordance with the approval of the Supervisor of Banks).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

Details of capital allocation to market risks according to the standard approach

	Capital allocation as of	
	September 30, 2022	December 31, 2021
In NIS millions		
Interest rate risk*	493	409
Foreign exchange rate risk	36	14
Share risk		
Option risk	8	7
Total for the Banking Group	537	430
Allocation in risk asset terms	4,294	3,738

* Including the specific risk in the amount of NIS 1.2 million and NIS 2.3 million in September 2022 and December 2021 respectively.

The allocation to market risks in risk asset terms comprises approx. 1.65% of the total risk assets as of March 31, 2022, compared with approx. 1.74% as of December 31, 2021.

Interest rate risk in the banking book (IRRBB)

For details regarding behavioral economic models integrated in risk management and regarding behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 74-75).

For quantitative information regarding interest risk in the banking book and the trading book, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 75-76).

Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 76-77).

Liquidity risk

Liquidity risk is the risk to the stability of the Group stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result thereof the Group would be compelled to raise funds and/or realize assets in a way that would result in a material loss. The Bank has determined a maximum exposure limitation to the liquidity risk.

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	September 30, 2022		December 31, 2021	
	In NIS millions			
			Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		79,544		67,627
Cash outflows				
Retail deposits from individuals and small businesses, of which:	153,764	10,718	142,470	10,132
Stable deposits	53,002	2,619	50,859	2,508
Less stable deposits	69,987	7,176	66,926	6,883
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	30,775	923	24,685	741
Unsecured wholesale financing, of which:	108,192	66,288	97,818	57,499
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	1	1
Deposits not for operational purposes (all counterparties)	106,463	66,155	96,421	57,441
Unsecured debts	1,729	132	1,395	58
Secured wholesale financing	-	147	-	77
Additional liquidity requirements, of which:	86,503	21,042	83,120	19,186
Cash outflows in respect of exposure to derivatives and other collateral requirements	14,264	13,691	12,438	11,524
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	72,239	7,351	70,682	7,662
Other contractual financing commitments	37,345	952	30,889	822
Other conditional financing commitments	2,905	99	2,659	91
Total cash outflows		99,245		87,808
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	953	953	1,422	1,422
Cash inflows from regularly performing exposure	25,745	21,109	23,567	19,489
Other cash inflows	15,449	13,719	13,696	11,939
Total cash inflows	42,148	35,781	38,685	32,850
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		79,544		67,627
Total net cash outflows		63,464		54,958
Liquidity Coverage Ratio		125.3%		123.1%

Liquidity risk – qualitative disclosure and additional disclosures in respect to the liquidity coverage ratio (LIQA)

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 78–82).

Liquidity coverage ratio - Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio"

For details regarding the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 82-83). A draft Amendment to the Directive was published during the month of June, as well as a Q&A document. The Bank estimates that the expected amendments will have no material effect upon the ratio at the Bank.

The liquidity coverage ratio of the Discount Group

As of September 30, 2022, the ratio amounted to 127.7%, compared to 128.5% on December 31, 2021. The average liquidity ratio in the third quarter of 2022 amounted to 125.3% as compared with an average ratio of 123.1% in the fourth quarter of 2021. The average liquidity ratio rose despite the growth in the credit portfolio, due to the growth in retail and wholesale deposits.

The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

Assets included		For the period ended	
		September 30, 2022	December 31, 2021
		in NIS millions	
Buffer 1	Cash	55,988	39,970
	Israel Bonds/Short-term loans (MAKAM)	10,355	15,998
	Foreign bonds	11,835	9,911
Buffer 2	Sovereigns bonds	192	341
	Mortgage bonds issued by public corporations	406	381
	Corporation Bonds AA	536	772
Buffer 2 b	Corporation Bonds A	232	253
Total		79,544	67,627

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB New York to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB NY in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.

Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

Distribution of the liquidity coverage ratio (average for the quarter) according to the legal entities within the Group

	For the period ended	
	September 30, 2022	December 31, 2021
	In %	
Discount Group	125.34%	123.05%
The Bank	136.72%	131.88%
IDB New York	110.53%	110.57%
Mercantile Discount Bank	135.06%	128.56%
Total	125.3%	123.1%

Concentrating the liquidity surplus at the Bank allows for much flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group.

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of September 30, 2022, the coverage ratio in shekels was 117.6% compared with 124.6% at December 31, 2021. The decline in the ratio stemmed from a fast growth in the credit portfolio in relation to the growth in deposits from the public and from shekel/dollar swap transactions.

The liquidity coverage ratio as of September 30, 2022, respecting the total of foreign currencies, amounted to 174.1% compared to 138.7% on December 31, 2021. The rise in the ratio stemmed from growth in foreign currency deposits from the public and from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.

The liquidity coverage ratio with respect to US dollar as of September 30, 2022 was 130.3% as compared with 123.5% on December 31, 2021. The rise in the ratio stemmed from growth in US dollar deposits from the public and from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.

In Euros, the liquidity coverage ratio at September 30, 2022, was 130.9% compared with 150.4% at December 31, 2021. The decrease in the ratio stemmed from a growth in the net outflow caused by dollar/Euro swap transactions.

The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Net Stable Funding Ratio (LIQ2)

	September 30, 2022				Weighted value
	Non weighted value according to periods of repayment			Weighted value	
	With no repayment date	From six months up to six months to one year	One year or over		
In NIS millions					
Available stable funding items (AFS)					
Capital:	26,392	-	-	-	26,392
Regulatory capital	24,654				24,654
Other capital instruments	1,738				1,738
Retail deposits by individuals and small businesses:	-	141,149	12,953	3,250	145,084
Stable deposits		59,009	3,836	1,563	61,266
Less stable deposits		82,140	9,117	1,687	83,818
Wholesale funding:	-	128,870	17,566	9,142	59,328
Deposits held for operational requirements		-	-	-	-
Other wholesale funding		128,870	17,566	9,142	59,328
Liabilities with interdependent matching assets					
Other liabilities:		16,069	1,415	12,891	13,599
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio		4,775			
All other liabilities and capital not included in the above categories		16,069	1,415	12,891	13,599
Total Available Stable Funding (AFS)					244,403
Total high quality liquid assets according to net stable funding ratio (HQLA)					
15,824					
Deposits held with other financial institutions for operational requirements					
Performing loans and securities:	-	129,767	28,640	151,607	170,612
Performing loans to financial institutions, secured by high quality liquid assets of level 1					
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions		16,349	763	5,025	7,561
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:		111,167	25,691	94,403	115,719
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		65,113	430	3,725	4,996
Performing housing loans secured by a mortgage, of which:		2,248	2,186	50,296	45,730
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		581	571	13,155	9,127
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities		3	-	1,883	1,602
Assets with interdependent matching liabilities					
Other assets:	86	3,368	359	7,262	9,126
Commodities physically traded, including gold	86				86
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)					
Assets in respect of derivative instruments for the purpose of net stable funding ratio		-	-	44	44
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral		-	-	300	300
All other classes of assets not included in the above categories		3,368	359	7,262	8,696
Off-balance sheet items		109,392	2,125	4,176	5,785
Total required stable funding (RSF)					201,347
Net stable funding ratio (NFSR) in percentages					121.38

Footnote:

(1) The Directive regarding Net Stable Funding Ratio is being implemented as from December 31, 2021.

Net Stable Funding Ratio (LIQ2) (continued)

	December 31, 2021				Weighted value
	Non weighted value according to periods of repayment				
	With no repayment date	From six months		One year or over	
		Up to six months	up to one year		
In NIS millions					
Available stable funding items (AFS)					
Capital:	25,220	-	-	-	25,220
Regulatory capital	21,887	-	-	-	21,887
Other capital instruments	3,333	-	-	-	3,333
Retail deposits by individuals and small businesses:	-	139,881	7,430	2,345	137,996
Stable deposits	-	58,380	3,039	961	59,309
Less stable deposits	-	81,501	4,391	1,384	78,687
Wholesale funding:	-	109,269	7,128	9,642	49,516
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	109,269	7,128	9,642	49,516
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,186	2,324	12,543	13,705
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,281	-	-	-
All other liabilities and capital not included in the above categories	-	15,186	2,324	12,543	13,705
Total Available Stable Funding (AFS)	-	-	-	-	226,437
Total high quality liquid assets according to net stable funding ratio (HQLA)	-	-	-	-	13,019
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	112,419	24,977	137,388	153,471
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	14,762	600	5,897	8,105
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	95,695	22,489	86,425	104,951
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	55,185	353	3,500	4,901
Performing housing loans secured by a mortgage, of which:	-	1,906	1,864	43,150	38,733
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	578	569	13,348	9,250
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	56	24	1,916	1,682
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	88	3,102	483	5,179	6,967
Commodities physically traded, including gold	88	-	-	-	88
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	4	4
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	161	161
All other classes of assets not included in the above categories	-	3,102	483	5,179	6,714
Off-balance sheet items	-	104,082	-	-	5,204
Total required stable funding (RSF)					178,661
Net stable funding ratio (NFSR) in percentages					126.70

Financing risk - available and unrestricted assets

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Bank of Israel, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. Collaterals pledged in favor of the Bank, are not recognized in the liquidity buffer.

Available and unrestricted assets

	September 30, 2022	December 31, 2021
	In NIS millions	
Total assets as of	116,252	111,551
Liquidity requirement	10,789	10,399
Of which pledged	22,960	20,607
Of which provided as collateral	1,155	1,181
Total available assets	81,348	79,364

Additional risks

Drafts and Instructions published during the first nine months of 2022

Update of Proper Conduct of Banking Business Directive No. 362 in the matter of cloud computing. The update, published on June 13, 2022, abolishes the prohibition on the use of cloud computing services with respect to the core systems. The Directive relates to aspects of corporate governance, risk management, contractual aspects, data protection aspects and business continuity applying to the Bank when using cloud computing, and states that Proper Conduct of Banking Business Directive No. 359A in the matter of outsourcing applies to the Bank when using cloud computing, except for certain matters detailed in the Directive. The Directive takes effect on January 1, 2023, and the Bank is required to update retroactively agreements signed before this date, in accordance with the dates stated in the Directive.

Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details regarding operational risks, including risk of fraud and embezzlement, business continuity and outsourcing and supplier risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 87-93).

Other risks

Information technology risk management

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 93–94).

Data and cyber protection risks

Threats in the cyberspace

In the third quarter of 2022, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

A number of outstanding trends were noted during July–September 2022:

- The Iranian Government acted through subcontractors, with the aim of impairing the Israeli economy. This by way of ransom ware attacks having a double target: financial component – the payment of ransom to the attacking agent, and a national component – embarrassment of the victim on the social networks and on the different media channels (thus embarrassing the State of Israel);
- Complexity in the manner of inserting the malware – the utilization of unidentified deficiencies is noticed in complex technological systems, for which the manufacturers have not yet issued data protection updates, with the aim of inserting malware into a large number of organizations at the same time. This trend may affect the Group, both by damaging one or more material suppliers and by damaging one of the systems in use by the Group;
- Following the fall in the value of the ruble resulting from the Russia–Ukraine war, an increase is noticed in attempts at fraud and social engineering at the global and national level, by non–local Russian–speaking attackers.

For additional details regarding data and cyber protection risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 95–98).

Environmental risks

Environmental and climate risks

Environmental risk is the risk stemming from exposure (direct or indirect) of financial corporations to activities having a potential for environmental damage, or which would be affected by it, such as, for instance, air and water pollution, soil contamination, and more.

Climate risks – physical risks and transition risks related to climate changes, to which financial corporations and/or the financial sector are exposed. Thus, for instance – exposure to flood damage or to decline in the value of assets relating to carbon abundant sectors.

Recently the topic of environmental and climate risk has received a high degree of focus from the regulatory authorities, who understand that the materialization of environmental and climate risks could affect the banking system and, in extreme circumstances, could even have global and systemic effects. Accordingly, various regulators around the world, including the Banking Supervision Department, are preparing to map the activities relating to this topic in the banking systems towards future regulation in this field.

In 2009, following a regulatory expectation letter concerning this topic sent to the banking system, the Bank's activities in this field were put in order, including as part of the credit policy and as part of the specific credit approval processes.

On December 1, 2020, a letter regarding environmental risk management was sent to banking corporations and credit card companies by the Supervisor of Banks. The Banking Supervision Department views with great importance the promotion of the environmental risk issue, and sees in the banking corporations important partners in the transition to sustainable environmental economy, inter alia, by way of formation of appetite for environmental risk, credit policy, investments, allocating capital to "green" financing and investments, etc.

Within the framework of a Bank of Israel circular dated December 2, 2021 regarding the public disclosure of environmental, social and governance (ESG) aspects, it is necessary – inter alia – to examine the need to expand the disclosure concerning the risks in this field to which the Bank is exposed, including due to developments associated with climate change and transition risks, and in order to reflect material changes in the way that such risks are managed and to include, inter alia, quantitative indices for measuring the exposure to these risks.

In view of the above stated, the Group applies a policy, according to which, consideration of the environmental risk will comprise a layer of the total risks considered by the corporation when granting credit being part of the underwriting process, in the current management of credit and within the framework of the periodic discussion of the borrower.

The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and according to the level of materiality.

The Bank is studying the subject and follows regulatory developments in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

Legal risks

Within the framework of updating the Group's legal risk management policy, it was, inter alia, decided in November 2022, that management of the regulatory risk shall be conducted by the Legal Consul Division, though managed separately from the legal risk. For additional details, see the 2021 Annual Report (p. 112).

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 101-103).

Compliance risks

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. The letter of indemnity and the letter of immunity are extended from time to time.

Validity of the letters of indemnification and immunity were extended at the beginning of July, 2022 until March 31, 2023. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For details regarding the requirement by the Supervisor of Banks to pay the wages of Palestinian workers by bank transfers, see "Legislation and supervision" in the Third Quarter of 2022 Report. The said requirement is expected to increase the volume of correspondent activity of the Group vis-à-vis the banks operating in areas of the Palestinian Authority.

For further details regarding compliance risks including Discount Group's activities with banks acting in the Palestinian Authority, see the 2021 Annual Report (pp. 112–113).

Amendment of Proper Conduct of Banking Business Directive No.411 regarding the management of prohibition of money laundering and the finance of terror risks in the field of virtual currencies. The Amendment sets the requirements from the banking system in prohibition of money laundering and the finance of terror risks involved in providing payment services involving activity in virtual currencies. It is noted that at this time, when regulation and supervision over virtual currency service providers is still in its infancy, the Supervisor sees payment services provided by banking corporations in virtual currency activity as high risk activities in terms of prohibition of money laundering and the finance of terror, and therefore increased monitoring and control measures should be applied. Among other things, it was determined that the banking corporation must perform a risk assessment regarding remittances the origin of or their purpose is related to virtual currencies, and on the basis of the risk assessment establish policies and procedures (which will relate, at the very least, to the manner of activity with virtual currency service providers; the manner of activity with customers who have carried out activity in a virtual currency not through a service provider, etc.). This requirement complies with the international standard set by the FATF for this matter. It was further determined that a corporation will not refuse to provide payment services in connection with activity in virtual currencies merely because it is associated with virtual currencies, insofar as the service provider in virtual currencies which is a party to the transaction has received a license to provide the service in Israel. A provision has also been issued prohibiting the provision of payment services in connection with activity in virtual currency in certain cases and provisions regarding the requirement of references for tax payments by law. The amendment to the Directive in these respects entered into force in November 2022.

Conduct risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 107).

Exposure to cross-border risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 107–110). In the past year, the Bank had examined the activity of the Group in the matter of cross-border risk management with respect to foreign resident customers, as well as its policy in the matter. Following the said examination, the policy has been updated in a way that reduces the types of banking services granted by the Bank to residents of different European countries, this, in a risk based approach. Following examination, the policy was extended to residents of all countries of the world.

Moreover, the Bank had examined the activity of the Group with foreign brokers, and following this examination the Bank's credit policy was updated, by adding reference to means of hedging and monitoring of the risk in relations to such operations.

Strategic risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 110–111).

Reputation risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 111).

Model risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 112).

Remuneration to senior officers

For details regarding remuneration to senior officers, in accordance with the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2021 Annual Report (pp. 335-338).

Addendums

For details regarding linkages between the financial statements and regulatory amounts, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 120-129). For details regarding Securitization, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (p. 130).

November 22, 2022 Shaul Kobrinsky
Chairman of the
Board of Directors

Uri Levin
President &
Chief Executive Officer

Orit Caspi
Executive Vice President
Chief Risk Officer

Glossary

Management quality	Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).
Key Risk Indicator	Means/pointer showing the risk exposure situation in relation to the risk.
Failure event	An event where risk is realized, whether or not causing damage to the Bank.
Gross credit	Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities– any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis – an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis – an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.
Uniform macro-economic stress test	A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator
Sensitivity tests	A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk – steep decline in interest rate; in credit risk – steep decline in housing prices).
Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.
Capital outline	A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis regarding the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors regarding the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution.

Glossary (continued)

Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to-maturity portfolio	Securities in respect of which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.
Stress tests	A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.
Credit conversion factors (CCF)	Conversion of off-balance sheet items to credit equivalents – according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients
Credit support annex (CSA)	An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.
International Swaps and Derivatives Association (ISDA)	An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.
Foreign Account Tax Compliance Act (FATCA)	In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.