Q3

Disclosure According to the Third Pillar of Basel and Additional Information Regarding Risks

2021

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

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

The meeting of the Board of Directors held on November 22, 2021, within the framework of approval of the Bank's Report for the third quarter of 2021, 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 2020 Annual Report and the Report for the third quarter of 2021, 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 2020 Annual Report.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	30.09.2021	30.06.2021	31.03.2021	31.12.2020	30.9.2020
		in NIS millions			
Available capital					
Common equity tier 1	21,719	21,099	20,333	19,707	19,725
Common equity tier 1 before applying the effect of the transition	21,443	20,752	19,951	19,331	19,273
Tier 1 capital	21,897	21,277	20,511	20,063	20,081
Tier 1 capital before applying the effect of the transition	21,443	20,752	19,951	19,331	19,273
Total capital	28,271	27,673	25,722	25,233	25,318
Total capital before applying the effect of the transition	27,643	26,879	24,853	24,168	24,127
Weighted average of risk assets					
Total weighted average of risk assets	**211,148**	**205,255**	**199,327**	**193,232**	**195,359**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.29	10.28	10.20	10.20	10.10
Ratio of common equity tier 1 before applying the effect of the transition	10.12	10.09	9.99	9.98	9.84
Tier I capital ratio	10.37	10.37	10.29	10.38	10.28
Tier I capital ratio before applying the effect of the transition	10.12	10.09	9.99	9.98	9.84
Ratio of total capital	13.39	13.48	12.90	13.06	12.96
Ratio of total capital before applying the effect of the transition	13.07	13.07	12.44	12.48	12.32
Ratio of common equity tier 1 required by the Supervisor of Banks	8.16	8.16	8.17	8.18	8.18
Ratio of common equity tier 1 over the required by the Supervisor of Banks	2.13	2.12	2.03	2.02	1.92
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**346,679**	**340,170**	**334,052**	**319,222**	**313,877**
Leverage ratio (in %)	6.3	6.3	6.1	6.3	6.4
Leverage ratio before applying the effect of the transition	6.2	6.1	5.8	6.1	6.1
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**66,886**	**66,700**	**66,852**	**64,815**	**61,959**
Total cash outflows	**51,421**	**48,031**	**45,913**	**43,937**	**42,176**
Liquidity coverage ratio (in %)	130.1	138.9	145.6	147.5	146.9

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 2020, together with the Annual Report for 2020 and the Third Quarter of 2021 Report. For further details, see the Risks Report published as part of the Annual Report for 2020 (p. 6).

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 2021

Outbreak of the Corona virus

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

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

Customer support. Since the beginning of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared to support its customers in confronting the economic uncertainty and traversing the crisis (see in the Report for the third quarter of 2021 "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments").

Operation and business continuity. The branch layout and the supporting units of the Bank and of MDB operated in full capacity in the first half of 2021. On the background of the decline in the morbidity rates and the high rate of vaccinated employees, the Bank and MDB returned as from April 4, 2021, to a regular work routine at all locations of these banks.

Reduced capital requirements and discontinuation of dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of the customers during this period, the Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided to discontinue, at this stage, the distribution of dividends by the Bank. On November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures as stated, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75% (for additional details, see "Capital and capital adequacy" in the Report for the third quarter of 2021). On November 22, 2021, the Bank's Board of Directors decided, to make a dividend distribution at the rate of 20% of the profits of the third quarter of 2021, in an amount of approx. NIS 144.4 million (for additional details, see below "Dividend distribution" and Note 18 to the condensed financial statements in the Report for the third quarter of 2021).

Expenses for credit losses. In the first nine months of 2021 credit loss expenses release in the amount of 683 million were recorded, compared with expenses of NIS 1,518 million in the corresponding period last year, an increase of 145.0%. The significant decrease in morbidity and the lifting of the third lockdown led to the reopening of the trade and the economy as a whole, with greater economic activity being evident beginning toward the end of the first quarter. During the year, the subsiding fourth wave of the Corona pandemic, due to the population being inoculated with the third booster shot with no need for additional lockdowns, brought about a decline in the scope of unemployment and the reduction in Government deficit. These factors have had a positive impact on the position of businesses and borrowers, as well as on macroeconomic parameters.

(See in the Report for the third quarter of 2021 "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").

Continuing uncertainty conditions. The level of uncertainty declined during 2021, in view of the wide scope vaccination of the population in Israel, the decline in the rates of morbidity and the lifting most of the restrictions that had been imposed on economic activity. However, the overall economic ramifications of the Corona crisis are still not fully clear and depend on the rate of economic recovery and the return of the various economic sectors to full activity. The uncertainty is also effected by concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. In addition, at this stage, significant uncertainty still exists with respect to the length of time in which the Corona epidemic may continue its significant presence in the world. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation. The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, uncertainty exists with respect to the rate of recovery from the crisis and the length of time in which it is expected to have an effect.

Forward looking information. The Bank estimates regarding the possible implications of the crisis, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.

For additional information, see in the Report for the third quarter of 2021.

Issuance of deferred debt notes (expansion of Series G)

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

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

The banking corporation's approach to risk management

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 2020 Annual Report (pp. 61-63, 102-106).

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks, macro environment risk, business model risks, privacy protection aspects and conduct risks, and environment and climate risk, as the most significant developing leading risks. For additional details see in the Risks Report, which was published as part of the 2020 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. 16-17).

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.09.2021	30.06.2021	30.09.2021
	in NIS millions		
Credit risk – standardised approach	182,643	177,324	21,004
Counterparty credit risk (standardised approach)	3,565	3,140	410
Credit valuation adjustment (CVA)	1,542	1,598	177
Securitization exposure (standardised approach)	259	241	30
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	4,169	4,263	479
Total credit risk	192,178	186,566	22,100
Market risk (standardised approach)	3,759	3,615	432
Operational risk	15,211	15,074	1,749
Total	**211,148**	**205,255**	**24,281**

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 2020 Annual Report (pp. 106-115).

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 2020 Annual Report (pp. 18-19).

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	September 30,		December 31,
	2021	2020	2020
	in NIS millions		
A. Common Equity Tier 1			
Common equity	22,006	19,699	19,727
Difference between common equity and common equity tier 1	(399)	(241)	(246)
Total common equity tier 1 before supervisory adjustments and deductions	21,607	19,458	19,481
Supervisory adjustments and deductions			
Goodwill and other intangible assets	196	207	207
Supervisory adjustments and other deductions	4	(22)	(16)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	200	185	191
Total adjustments in respect to the efficiency plan	312	452	417
Total common equity tier 1 after supervisory adjustments and deductions	**21,719**	**19,725**	**19,707**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	178	356	356
Total additional tier 1 capital after deductions	**178**	**356**	**356**
C. Tier 2 capital			
Instruments before deductions	3,886	2,946	2,896
Allowance for credit losses before deductions	2,402	2,205	2,188
Minority interests in a subsidiary	86	86	86
Total tier 2 capital before deductions	6,374	5,237	5,170
Deductions	-	-	-
Total tier 2 capital	**6,374**	**5,237**	**5,170**

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 2020 Annual Report (pp. 103-113).

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 2020 Annual Report, and is open for review as stated (pp. 23-27).

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, 2020, p. 223 and Note 9 item 2 to the interim financial statements as of June 30, 2021).

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

	September 30,		December 31,
	2021	2020	2020
	NIS millions		
Total assets according to the consolidated financial statements	313,411	287,678	293,969
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	38	(1,396)	(2,060)
Adjustments in respect of SFTs	130	8	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	30,900	25,597	25,340
Other adjustments	2,200	1,990	1,973
Exposure for the purpose of the leverage ratio	**346,679**	**313,877**	**319,222**

Disclosure of the leverage ratio (LR2)

	September 30, 2021	September 30, 2020	December 31, 2020
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	307,503	281,344	286,277
Asset amounts deducted in determining Tier 1 capital	(196)	(207)	(207)
Total balance sheet exposures (excluding derivatives and SFTs)	**307,307**	**281,137**	**286,070**
Derivative exposures			
Replacement cost associated with all derivatives transactions	1,873	2,049	2,407
Add-on amounts for PFE associated with all derivatives transactions	2,544	2,017	1,943
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	**4,417**	**4,066**	**4,350**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	3,925	3,069	3,462
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	130	8	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	**4,055**	**3,077**	**3,462**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	122,808	101,416	101,476
Adjustments for conversion to credit equivalent amounts	(91,908)	(75,819)	(76,136)
Total off-balance sheet items	**30,900**	**25,597**	**25,340**
Capital and total exposures			
Tier 1 capital	(1)21,897	(1)20,081	(1)20,063
Total exposures	346,679	313,877	319,222
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.3	6.4	6.3

Footnote:
(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.

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 2020 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. 31-38) and in the Report for the second quarter of 2021.

Ramifications of the Corona crisis

During the third quarter, economic activity continued to recover, with a return to pre-corona routine activity in most sectors. The fading out of the fourth wave at the beginning of the fourth quarter is contributing to an improvement in the economic indices. At the same time, the overall economic ramifications of the Corona crisis are still not clear and depend on the various economic sectors returning to full activity.

For additional details, see "Principal economic developments" in the Report for the third quarter of 2021, and for details regarding "Debts whose terms have been changed within the framework of coping with the Corona virus" see the Report for the third quarter of 2021.

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, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs Recognized during the Period	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	9	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	260	-	21	318
Construction and Real Estate - Construction	[6]42,757	41,682	477	598	[6]42,728	19,496	477	161	(14)	23	307
Construction and Real Estate - Real Estate Activity	13,794	13,337	265	192	13,743	11,793	259	108	(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	168	(187)	(54)	427
Hotels, Hotel Services and Food	2,342	1,899	328	115	2,342	1,997	329	106	(48)	(1)	57
Transportation and Storage	6,574	6,061	407	106	6,341	5,191	407	195	(10)	8	158
Communication and Computer Services	2,418	2,314	51	53	2,378	1,693	51	45	(57)	(26)	78
Financial Services	19,555	19,433	56	66	17,004	10,731	56	-	(25)	(7)	78
Other Business Services	7,803	7,095	266	442	7,765	5,381	266	131	(59)	5	170
Public and Community Services	10,726	10,557	61	108	10,721	9,137	61	25	(21)	(2)	35
Total Commercial	**152,448**	**146,859**	**3,236**	**2,353**	**148,435**	**98,022**	**3,228**	**1,243**	**(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	233	(127)	22	824
Total Public	**275,344**	**265,599**	**4,048**	**5,697**	**271,326**	**177,062**	**4,040**	**1,477**	**(584)**	**(3)**	**2,940**
Banks in Israel	2,013	2,013	-	-	1,000	878	-	-	-	-	-
Israeli Government	32,716	32,716	-	-	2,041	1,364	-	-	-	-	-
Total Lending Activity in Israel	**310,073**	**300,328**	**4,048**	**5,697**	**274,367**	**179,304**	**4,040**	**1,477**	**(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]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense release)	Net Accounting Write-Offs 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	169	(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	322	(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	13	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**	**561**	**(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**	**561**	**(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**	**561**	**(99)**	**10**	**445**
TOTAL	**368,972**	**353,790**	**7,397**	**7,785**	**317,311**	**213,069**	**7,311**	**2,038**	**(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, 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 213,169 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 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 7,852 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 of the Bank.

(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.

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

	September 30, 2020										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,317	1,258	15	44	1,301	1,041	15	7	4	1	20
Mining & Quarrying	786	628	116	42	786	545	116	112	-	5	6
Industry	14,780	13,694	697	389	14,651	8,484	697	171	70	(8)	313
Construction and Real Estate - Construction	[6]33,253	31,932	637	684	[6]33,206	16,877	637	151	109	35	340
Construction and Real Estate - Real Estate Activity	13,026	12,359	342	325	12,898	11,364	342	145	102	(6)	194
Electricity and Water	3,690	3,637	42	11	3,335	2,343	42	5	16	3	24
Commerce	22,793	21,334	601	858	22,668	18,311	601	202	192	44	548
Hotels, Hotel Services and Food	2,075	1,815	182	78	2,075	1,764	182	45	64	(3)	83
Transportation and Storage	6,257	5,646	390	221	6,083	4,957	387	132	48	6	162
Communication and Computer Services	2,439	2,280	68	91	2,380	1,880	68	61	26	3	123
Financial Services	16,823	16,118	390	315	13,972	8,948	390	327	17	2	106
Other Business Services	7,769	7,003	318	448	7,743	5,487	318	77	182	26	256
Public and Community Services	9,679	9,476	134	69	9,676	8,594	134	11	22	-	51
Total Commercial	**134,687**	**127,180**	**3,932**	**3,575**	**130,774**	**90,595**	**3,929**	**1,446**	**852**	**108**	**2,226**
Private Individuals - Housing Loans	45,479	43,398	371	1,710	45,479	40,904	371	2	67	18	254
Private Individuals - Other	65,730	62,829	677	2,224	65,723	30,313	677	184	413	163	959
Total Public	**245,896**	**233,407**	**4,980**	**7,509**	**241,976**	**161,812**	**4,977**	**1,632**	**1,332**	**289**	**3,439**
Banks in Israel	1,770	1,770	-	-	588	479	-	-	-	-	-
Israeli Government	30,550	30,550	-	-	3,058	2,684	-	-	-	-	-
Total Lending Activity in Israel	**278,216**	**265,727**	**4,980**	**7,509**	**245,622**	**164,975**	**4,977**	**1,632**	**1,332**	**289**	**3,439**

For footnotes see next page.

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

	September 30, 2020										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]				Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	278	110	1	167	278	202	1	-	-	-	3
Mining & Quarrying	319	319	-	-	-	-	-	-	-	-	-
Industry	6,632	5,934	355	343	6,006	3,619	354	-	5	(2)	66
Construction and Real Estate - Construction	173	171	-	2	172	133	-	-	(1)	(2)	2
Construction and Real Estate - Real Estate Activity	11,626	9,806	728	1,092	11,132	10,083	713	230	90	15	231
Electricity and Water	408	408	-	-	68	13	-	-	-	-	-
Commerce	7,265	6,482	288	495	7,040	4,571	288	10	2	13	61
Hotels, Hotel Services and Food	1,839	859	98	882	1,811	1,729	98	22	33	-	43
Transportation and Storage	957	941	8	8	764	724	-	-	3	-	9
Communication and Computer Services	273	268	5	-	163	89	5	5	-	-	1
Financial Services	10,968	10,899	27	42	2,557	1,348	27	15	8	-	15
Of which: Federal agencies in the U.S. [7]	7,116	7,116	-	-	-	-	-	-	-	-	-
Other Business Services	1,049	849	82	118	902	626	82	-	5	-	12
Public and Community Services[8]	4,693	4,118	126	449	3,954	3,697	126	-	20	-	38
Total Commercial	**46,480**	**41,164**	**1,718**	**3,598**	**34,847**	**26,834**	**1,694**	**282**	**165**	**24**	**481**
Private Individuals - Housing Loans	251	242	6	3	251	247	6	-	1	-	3
Private Individuals - Other	1,962	1,950	7	5	1,961	1,407	7	-	6	-	14
Total Public	**48,693**	**43,356**	**1,731**	**3,606**	**37,059**	**28,488**	**1,707**	**282**	**172**	**24**	**498**
Banks Outside of Israel	5,268	5,229	39	-	3,517	3,471	-	-	-	-	1
Governments Outside of Israel	3,140	3,140	-	-	1,592	1,592	-	-	14	-	14
Total Lending Activity Outside of Israel	**57,101**	**51,725**	**1,770**	**3,606**	**42,168**	**33,551**	**1,707**	**282**	**186**	**24**	**513**
TOTAL	**335,317**	**317,452**	**6,750**	**11,115**	**287,790**	**198,526**	**6,684**	**1,914**	**1,518**	**313**	**3,952**

Footnotes:
(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 198,526 million, NIS 40,383 million, NIS 679 million, NIS 5,451 million, NIS 90,278 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 213 million.
(7) Including mortgage backed securities in the amount of NIS 6,500 million, issued by GNMA and in the amount of NIS 616 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 7,375 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 of the Bank.
(11) The balance of commercial debts includes housing loans in the amount of NIS 214 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)

	December 31, 2020										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,330	1,268	18	44	1,315	1,036	18	8	2	-	18
Mining & Quarrying	640	632	6	2	640	408	6	6	-	5	5
Industry	15,116	13,900	796	420	14,939	8,774	796	234	122	13	346
Construction and Real Estate - Construction	[6]33,119	31,700	630	789	[6]33,050	16,999	630	153	115	39	342
Construction and Real Estate - Real Estate Activity	13,186	12,492	356	338	13,058	11,494	356	140	137	-	223
Electricity and Water	4,433	4,377	39	17	3,994	2,897	39	3	18	3	27
Commerce	22,581	21,085	639	857	22,300	18,007	629	181	215	49	560
Hotels, Hotel Services and Food	2,126	1,619	393	114	2,126	1,830	393	112	83	(3)	102
Transportation and Storage	6,177	5,523	446	208	6,008	4,911	446	193	65	10	176
Communication and Computer Services	2,262	2,111	67	84	2,201	1,651	67	61	10	2	108
Financial Services	16,492	16,050	357	85	13,742	9,854	357	299	7	2	96
Other Business Services	7,871	6,930	284	657	7,830	5,546	284	73	167	32	235
Public and Community Services	9,884	9,621	131	132	9,862	8,839	131	23	24	-	53
Total Commercial	**135,217**	**127,308**	**4,162**	**3,747**	**131,065**	**92,246**	**4,152**	**1,486**	**965**	**152**	**2,291**
Private Individuals - Housing Loans	47,628	45,994	321	1,313	47,628	42,457	321	2	69	19	255
Private Individuals - Other	65,857	62,037	711	3,109	65,850	30,397	711	259	449	185	973
Total Public	**248,702**	**235,339**	**5,194**	**8,169**	**244,543**	**165,100**	**5,184**	**1,747**	**1,483**	**356**	**3,519**
Banks in Israel	2,557	2,557	-	-	964	849	-	-	-	-	-
Israeli Government	32,129	32,129	-	-	2,241	1,755	-	-	-	-	-
Total Lending Activity in Israel	**283,388**	**270,025**	**5,194**	**8,169**	**247,748**	**167,704**	**5,184**	**1,747**	**1,483**	**356**	**3,519**

For footnotes see next page.

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

	December 31, 2020										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	276	276	-	-	276	192	-	-	-	-	2
Mining & Quarrying	301	301	-	-	20	20	-	-	-	-	-
Industry	6,249	5,743	221	285	5,766	3,408	221	24	2	(2)	63
Construction and Real Estate - Construction	183	183	-	-	183	132	-	-	(3)	(4)	2
Construction and Real Estate - Real Estate Activity	11,393	9,219	1,123	1,051	10,979	9,780	1,061	185	116	11	249
Electricity and Water	501	501	-	-	184	18	-	-	-	-	-
Commerce	7,213	6,414	175	624	7,081	4,441	175	-	(18)	2	49
Hotels, Hotel Services and Food	1,833	363	1,367	103	1,803	1,738	1,367	299	96	-	103
Transportation and Storage	848	836	12	-	673	656	-	-	3	-	8
Communication and Computer Services	168	165	3	-	151	115	3	3	3	2	1
Financial Services	10,578	10,489	52	37	2,494	1,343	52	14	6	-	13
Of which: Federal agencies in the U.S.[7]	6,889	6,889	-	-	-	-	-	-	-	-	-
Other Business Services	919	802	5	112	782	535	5	-	(2)	-	5
Public and Community Services[8]	4,482	3,939	116	427	3,791	3,521	116	-	14	-	31
Total Commercial	**44,944**	**39,231**	**3,074**	**2,639**	**34,183**	**25,899**	**3,000**	**525**	**217**	**9**	**526**
Private Individuals - Housing Loans	199	181	6	12	199	194	6	-	1	-	3
Private Individuals - Other	1,850	1,840	6	4	1,849	1,286	6	-	3	-	11
Total Public	**46,993**	**41,252**	**3,086**	**2,655**	**36,231**	**27,379**	**3,012**	**525**	**221**	**9**	**540**
Banks Outside of Israel	4,569	4,569	-	-	2,761	2,707	-	-	(1)	-	-
Governments Outside of Israel	3,775	3,775	-	-	1,718	1,718	-	-	15	-	15
Total Lending Activity Outside of Israel	**55,337**	**49,596**	**3,086**	**2,655**	**40,710**	**31,804**	**3,012**	**525**	**235**	**9**	**555**
TOTAL	**338,725**	**319,621**	**8,280**	**10,824**	**288,458**	**199,508**	**8,196**	**2,272**	**1,718**	**365**	**4,074**

Footnotes:
(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 199,508 million, NIS 41,692 million, NIS 1,074 million, NIS 6,399 million, NIS 90,052 million, respectively.
(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.
(3) 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 214 million.
(7) Including mortgage backed securities in the amount of NIS 6,385 million, issued by GNMA and in the amount of NIS 504 million, issued by FNMA and FHLMC.
(8) Including 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 7,022 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 of the Bank.
(11) The balance of commercial debts includes housing loans in the amount of NIS 212 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit Exposure to Foreign Financial Institutions

About 90% of the exposure as of September 30, 2021, is to financial institutions rated "A-"rating or higher, compared with about 91% as of December 31, 2020. For additional details, see the Report for the third quarter of 2021.

Drafts and Instructions published during the third quarter of 2021

Updates of guidelines of the Supervisor of Banks in the matter of housing loans. The Supervisor of Banks published on August 9, 2021, three updates: the first, regarding the Q&A file in the matter of limitations on housing loans, according to which, it is clarified that a bank may not extend an additional loan to be used as "equity capital" for the purchase of a residential unit, with the exception of cases detailed in the body of the instruction. The two additional updates comprise a decision regarding the non-extension of the effective period of reliefs in the matter of housing loans granted within the framework of the Provisional Instruction, which expires on September 30, 2021: the provisional Instruction permits the increase of the financing ratio up to a rate of 70% of a loan granted for any purpose, instead of a rate of 50%; The Provisional Instruction states also that banks would not be required to increase the Common Equity Tier 1 target by 1% in respect of housing loans granted during the period of the Provisional Instruction.

Update of Proper Conduct of Banking Business Directive No. 203 – Capital Measurement and Adequacy and Proper Conduct of Banking Business Directive No. 208A – Adjusting Value with Respect to Credit Risk. In the draft of the update, it is proposed to reduce the weight of the risk attributed to institutional bodies and to make it equal to the weight of the risk attributed to banking corporations, so as to reflect the low level of risk resulting from exposure to institutional bodies.

Strengthening the control and monitoring processes with respect to credit for the construction and real estate sector. For details regarding the Banking Supervision Department's letter dated August 19, 2021, see "Credit risk in relation to the Construction and Real Estate Sector" in Chapter "C" of the Report for the third quarter of 2021.

Proper Conduct of Banking Business Directive No. 250A – Transition from Libor Interest. For details regarding the Directive, which was issued on September 30, 2021, see "Replacement of foreign interest benchmarks (base rates) and its repercussions" in Chapter "C" of the Report for the third quarter of 2021.

Updating Proper Conduct of Banking Business Directive No. 250. On September 30, 2021, an update to the Directive was issued, which extends some of the temporary provisions that were due to expire on September 30, 2021. The extension of the Temporary Directive through December 31, 2021 allows a financial report to be viewed as being updated even if the period specified in Proper Conduct of Banking Business Directive No. 311 has passed, subject to that required in section 7A of the Temporary Directive. It is clarified that the aforesaid also applies with regard to a financial report for 2020.

The management of debt arrangements and collection processes of material debts in difficulties. On September 30, 2021, Proper Conduct of Banking Business Directive No. 314A was issued, in furtherance of the updating of Proper Conduct of Banking Business Directive No. 450, which describes the way that large debts need to be handled. The Directive expands and details the regulatory guidelines for managing material debts in difficulties and all the relevant aspects at the various life-stages thereof: guidelines at the underwriting stage such as to assist in properly dealing with credit defaults, guidelines pertaining to the early identification of a worsening of the debt even prior to it becoming problematic, and guidelines for the way in which debt arrangements and collection processes are to be handled. The Directive emphasizes the importance of passing the debt, at early stages, while there is still cooperation on the part of the debtor, to be handled by the Special Credit Unit. In addition, it is stated that the Risk Officer will participate in the forum whose role it is to discuss and take decisions about passing a debt to be handled by the designated function and to give an independent written opinion, both in preparation for the discussion on passing a debt to be handled by the designated function and also when the debt arrangement includes the waiver of the debt or part thereof in a material amount or when additional credit is needed for a borrower in difficulties.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances: Impaired or in arrears of 90 days or over	Gross balances: Other	Allowances for credit losses or impairment in value	Net balance
	in NIS millions			
	September 30, 2021			
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**
	September 30, 2020			
Debts, excluding bonds	3,481	192,299	3,645	192,135
Bonds	50	37,847	-	37,897
Off-balance sheet exposure	60	98,055	289	97,826
Total	**3,591**	**328,201**	**3,934**	**327,858**
	December 31, 2020			
Debts, excluding bonds	3,782	193,080	3,762	193,100
Bonds	13	39,498	-	39,511
Off-balance sheet exposure	65	98,759	298	98,526
Total	**3,860**	**331,337**	**4,060**	**331,137**

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 2020 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. 38-40).

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 2020 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. 48-49).

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	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, 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	-	-
	September 30, 2020								
Debts, excluding bonds	159,496	32,639	14,819	24,864	7,044	7,775	7,775	-	-
Bonds	37,897	-	-	-	-	-	-	-	-
Total	**197,393**	**32,639**	**14,819**	**24,864**	**7,044**	**7,775**	**7,775**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over[(1)]	1,097	1,313	848	227	18	1,086	830	-	-
	December 31, 2020								
Debts, excluding bonds	159,296	33,804	15,277	25,748	7,221	8,056	8,056	-	-
Bonds	39,511	-	-	-	-	-	-	-	-
Total	**198,807**	**33,804**	**15,277**	**25,748**	**7,221**	**8,056**	**8,056**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over[(1)]	1,090	1,338	792	274	15	1,064	777	-	-

Note:
(1) Not including an accumulating impaired debt in the amount of NIS 443 million (September 30,2020: NIS 632 million, December 31,2020: NIS 635 million)

Standardized 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, 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**
	September 30, 2020								
Sovereigns, their central banks and national monetary authority	71,124	118	-	-	-	-	127	-	71,369
Public sector entities (PSE) which are not central governments	1,318	7,581	-	1,444	-	-	31	-	10,374
Banks (including multilateral development banks)	-	10,857	-	133	-	-	28	-	11,018
Corporations	-	8,460	-	1,023	-	-	(1)92,603	110	102,196
Retail exposures for private individuals	-	-	-	-	-	28,750	144	-	28,894
Loans to small businesses	-	-	-	-	-	12,915	47	-	12,962
Secured by residential property	-	-	12,354	12,997	6,797	8,951	486	-	41,585
Secured by commercial real estate	-	-	-	-	-	-	(1)3,508	-	3,508
Loans in arrears	-	-	-	-	-	-	629	996	1,625
Other assets	3,146	27	-	-	-	-	5,001	1,251	9,425
Of which: in respect of shares	-	-	-	-	-	-	198	848	1,046
Total	**75,588**	**27,043**	**12,354**	**15,597**	**6,797**	**50,616**	**102,604**	**2,357**	**292,956**
	December 31, 2020								
Sovereigns, their central banks and national monetary authority	76,027	46	-	-	-	-	107	38	76,218
Public sector entities (PSE) which are not central governments	1,537	7,540	-	1,274	-	-	54	-	10,405
Banks (including multilateral development banks)	-	10,436	-	93	-	-	33	-	10,562
Corporations	-	8,762	-	722	-	-	(1)90,506	115	100,105
Retail exposures for private individuals	-	-	-	-	-	28,712	119	-	28,831
Loans to small businesses	-	-	-	-	-	12,978	29	-	13,007
Secured by residential property	-	-	12,559	13,568	7,486	8,904	579	-	43,096
Secured by commercial real estate	-	-	-	-	-	-	(1)4,214	-	4,214
Loans in arrears	-	-	-	-	-	-	596	1,017	1,613
Other assets	2,601	52	-	-	-	-	5,302	1,202	9,157
Of which: in respect of shares	-	-	-	-	-	-	257	848	1,105
Total	**80,165**	**26,836**	**12,559**	**15,657**	**7,486**	**50,594**	**101,539**	**2,372**	**297,208**

Footnote:
(1) Improvement of the 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 2020 Annual Report, and is open for review, as stated (pp. 53-55).

Drafts and Instructions published during the third quarter of 2021

Draft Directive regarding the standardized 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 standardized approach for measuring counterparty credit risk exposures SA-CCR". In October 2021, the Supervisor of Banks published a draft update to 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 replaces the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the present exposure approach and the standardized 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.

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

	Replacement cost	Potential future exposure	EAD after CRM	RWA
	in NIS millions			
	September 30, 2021			
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**
	September 30, 2020			
Current exposure method	1,989	1,693	3,361	2,204
The comprehensive approach to credit risk mitigation (for securities financing transactions SFT)	-	-	1,411	732
Total	**1,989**	**1,693**	**4,772**	**2,936**
	December 31, 2020			
Current exposure method	2,350	1,575	3,204	2,034
The comprehensive approach to credit risk mitigation (for securities financing transactions SFT)	-	-	1,741	667
Total	**2,350**	**1,575**	**4,945**	**2,701**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	September 30, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	3,356	1,542
	September 30, 2020	
Total portfolios for which CVA is calculated according to the standardised approach	3,181	2,023
	December 31, 2020	
Total portfolios for which CVA is calculated according to the standardised approach	3,160	1,763

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.

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 2020 Annual Report, and is open for review, as stated (pp. 58-61).

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 2020 Annual Report, and is open for review, as stated (p. 61).
During the third quarter, the update of the market and investment risk management policy had been approved with an increase in the risk appetite relating to interest exposure.

(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 100 BP as of September 30, 2021	Affect of 100 BP as of December 31, 2020	Liabilities	Affect of 100 BP as of September 30, 2021	Affect of 100 BP as of December 31, 2020
			in NIS millions		
Credit	2,595	2,343	Deposits	904	918
Available-for-sale securities portfolio	1,356	1,308	Debt notes	315	329
Trading securities portfolio	(12)	10	Off balance-sheet	225	301
Held-to-maturity securities portfolio	437	357	Current account spreading	2,005	2,108
Off balance-sheet	-	-	Employees rights	329	318
Other	28	42	Other	-	-
Total	**4,404**	**4,059**	**Total**	**3,778**	**3,974**

(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 2020 Annual Report, and is open for review, as stated (pp. 63-66).

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 2020 Annual Report, and is open for review, as stated (p. 64).

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 ended on			
	September 30, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(626)	(636)	(85)	(625)
Limitation set by the Board of Directors	(1,477)		(1,184)	
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 2020 Annual Report, and is open for review, as stated (p. 64).

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

	For the period ended on			
	September 30, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(585)	(598)	(864)	(902)
Limitation set by the Board of Directors	(1,477)		(1,281)	

In the course of the second quarter, the Bank updated the parameters used to compute the scenario, and in consequence thereof, the impact of the scenario decreased by approx. NIS 200 million.

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 2021.
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		Year end	
	2021		2020	
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	4.9	18.4	5.4	7.0
Limitation set by the Board of Directors	30		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 2020 Annual Report, and is open for review, as stated (pp. 65-66).
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 2020 Annual Report, and is open for review, as stated (p. 66).

(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, 2020. 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)

		Third quarter 2021				Year 2020		
				Position range				
Segment	Limitation	Year end	From	To	Average	Year end	From	To
CPI linked*	(50%)-50%	14.6%	14.6%	16.1%	15.4%	6.1%	2.7%	6.1%
Foreign currency	30% - 15%	18.6%	18.5%	18.7%	18.6%	19.2%	21.1%	19.2%

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 of or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. 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 2021.

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, 2021	December 31, 2020
	in NIS millions	
Not for trading derivatives	37,531	34,809
Of which: hedging derivatives	3,931	4,123
Trading derivatives	303,366	268,715
Total	**340,897**	**303,524**

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, 2020 (pp. 143-144, 238-244).

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, 2020 (p. 153) and Note 3 to the condensed financial statements as of September 30, 2021.

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 both as regards overall volume and 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").
No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2021.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized 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, 2021	June 30, 2021
	In NIS millions	
Interest rate risk*	422	391
Foreign exchange rate risk	13	22
Share risk		1
Option risk	5	8
Total for the Banking Group	**441**	**422**
Allocation in risk asset terms	**3,836**	**3,615**

* Including the specific risk in the amount of NIS 2.6 million and NIS 2.3 million in September 2021 and June 2021 respectively.

The allocation to market risks in risk asset terms comprises approx. 2.02% of the total risk assets as of September 30, 2021, compared with approx. 1.73% as of December 31, 2020.

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 2020 Annual Report, and is open for review, as stated (pp. 69-70).
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 2020 Annual Report, and is open for review, as stated (pp. 70-71).

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 2020 Annual Report, and is open for review, as stated (pp. 71-72).

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, 2021		December 31, 2020	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		66,886		64,815
Cash outflows				
Retail deposits from individuals and small businesses, of which:	142,329	9,972	139,490	9,374
Stable deposits	50,274	2,478	46,400	2,283
Less stable deposits	64,915	6,679	58,999	6,068
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	27,140	814	34,091	1,022
Unsecured wholesale financing, of which:	88,787	51,891	78,390	46,315
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	1	-	-	-
Deposits not for operational purposes (all counterparties)	87,119	51,811	76,403	46,152
Unsecured debts	1,667	79	1,986	162
Secured wholesale financing	-	18	-	1
Additional liquidity requirements, of which:	81,217	18,173	77,433	18,814
Cash outflows in respect of exposure to derivatives and other collateral requirements	10,028	9,328	11,277	10,384
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	71,189	8,845	66,156	8,430
Other contractual financing commitments	29,782	868	25,598	823
Other conditional financing commitments	2,517	88	2,451	86
Total cash outflows		**81,008**		**75,411**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	968	968	577	577
Cash inflows from regularly performing exposure	22,746	18,888	24,002	20,201
Other cash inflows	11,701	9,731	13,153	10,697
Total cash inflows	**35,415**	**29,587**	**37,732**	**31,475**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**66,886**		**64,815**
Total net cash outflows		**51,421**		**43,936**
Liquidity Coverage Ratio		130.1%		147.5%

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 2020 Annual Report, and is open for review, as stated (pp. 73-78).

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 2020 Annual Report, and is open for review, as stated (pp. 76-77).

The liquidity coverage ratio of the Discount Group

As of September 30, 2021, the ratio amounted to 122.9%, compared to 143.9% on December 31, 2020. The average liquidity ratio in the third quarter of 2021 amounted to 130.07% as compared with an average ratio of 147.5% in the fourth quarter of 2020.
The liquidity ratio declined, due to the fact that the growth in the credit portfolio was faster than 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

		For the period ended	
	Assets included	September 30, 2021	December 31, 2020
		in NIS millions	
Buffer 1	Cash	36,374	33,088
	Israel Bonds/Short-term loans (MAKAM)	19,352	22,001
	Foreign bonds	9,601	8,057
Buffer 2	Sovereigns bonds	366	702
	Mortgage bonds issued by public corporations	238	8
	Corporation Bonds AA	692	798
Buffer 2 b	Corporation Bonds A	263	161
Total		**66,886**	**64,815**

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 IDBNY 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, 2021	December 31, 2020
	In %	
Discount Group	130.1%	147.5%
The Bank	141.5%	165.4%
IDB Bank	112.7%	124.9%
Mercantile Discount Bank	130.8%	155.8%
Total	**130.1%**	**147.5%**

Concentrating the liquidity surplus at the Bank allows for higher 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, 2021 the coverage ratio in shekels was 107.4% compared with 137.6% at December 31, 2020. The decrease in the ratio stemmed from the growth in the credit portfolio, which was faster than the growth in retail and wholesale deposits, and in the effect of the shekel/dollar SWAP activity.
The liquidity coverage ratio as of September 30, 2021, respecting the total of foreign currencies, amounted to 253.7% compared to 174.6% on December 31, 2020. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.
The liquidity coverage ratio with respect to US dollars as of September 30, 2021 was 233.9% as compared with 158.7% on December 31, 2020. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/ shekel SWAP activity.
In Euros, the liquidity coverage ratio at September 30, 2021, was 131.0% compared with 126.8% at December 31, 2020. The main factor causing the increase was the decline in the net cash outflow, derived from foreign currency/shekel 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.

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, 2021	December 31, 2020
	in NIS millions	
Total assets as of	98,437	89,808
Liquidity requirement	9,880	8,498
Of which pledged	19,747	15,104
Of which provided as collateral	1,221	871
Total available assets	**67,589**	**65,336**

Additional risks

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 2020 Annual Report, and is open for review, as stated (pp. 79-84).

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 2020 Annual Report, and is open for review, as stated (pp. 85-86).

Data and cyber protection risks

Threats in the cyberspace

In the third quarter of 2021, 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.
Two outstanding trends were noted in the first nine months of 2021:
- 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 of the manner of inserting the ransom ware – we are recently witnessing the utilization of unidentified deficiencies existing in complex technological systems, for which the manufacturers have not yet issued data protection updates, with the aim of inserting a ransom ware virus into the systems of 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.

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 2020 Annual Report, and is open for review, as stated (pp. 87-88).

Environmental 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 2020 Annual Report, and is open for review, as stated (p. 89).
On February 3, 2021, a questionnaire was sent to the banks with respect to environmental risks, the answers to it will serve as a basis for the continuation of discussions with risk managers at the banking corporations. The Bank has responded to the Supervisor of Banks, and the results of the questionnaire would comprise a basis for discussions with the Supervisor towards the possible future regulation in the matter. The regulation to be formed is expected to be based upon globally accepted regulation principles, while aspiring to achieve optimal match of the international regulation and expectations to the local environment.
The Chapter regarding environmental risks, being part of the annual review of the banking system in Israel, conducted by the Bank of Israel, was published on May 26, 2021. The Chapter extensively describes the development of monitoring environmental risks existing in the Israeli banking system, as well as the regulatory anticipation regarding the manner of reporting five major issues: corporate governance, strategy, risk management, scenario analysis and stress tests and disclosure.
The Bank is studying the subject in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

Legal risks

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 2020 Annual Report, and is open for review, as stated (p. 89-91).

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. Validity of the letters of indemnification and immunity has been extended from time to time. Validity of the letters of indemnification and immunity were extended in July 2021 until July 15, 2022. This on the background of the delay in the start of operations of the Government Correspondence Company.

For additional details regarding Discount Group's activities with banks acting in the Palestinian Authority, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pg. 93-94).

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 2020 Annual Report, and is open for review, as stated (p. 94).

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 2020 Annual Report, and is open for review, as stated (pp. 95-97).
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. Presently, the Bank is studying the possibility of applying the updated policy also to residents of non-European countries.
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 2020 Annual Report, and is open for review, as stated (p. 98).

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 2020 Annual Report, and is open for review, as stated (p. 98-99).

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 2020 Annual Report (pp. 326-329).

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 2020 Annual Report, and is open for review, as stated (pp. 106-115). 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 2020 Annual Report, and is open for review, as stated (p. 116).

November 22, 2021	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Avi Levi Senior 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.

Glossary (continued)

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.
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.