

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

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

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The meeting of the Board of Directors held on August 13, 2023, within the framework of approval of the Bank's Report for the second quarter of 2023, decided to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information on risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2022 Annual Report and the Report for the second quarter of 2023, including in the document "Disclosure according to the third pillar of Basel and additional information on risks", which was published in the framework of the 2022 Annual Report.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	30.06.2023	31.03.2023	31.12.2022	30.09.2022	30.06.2022
	in NIS millions				
Available capital					
Common equity tier 1	27,448	26,542	25,353	24,653	23,939
Common equity tier 1 before applying the effect of the transition	27,175	26,247	25,012	24,294	23,557
Tier 1 capital	27,448	26,542	25,353	24,653	23,939
Tier 1 capital before applying the effect of the transition	27,175	26,247	25,012	24,294	23,557
Total capital	34,882	33,545	32,231	31,013	30,214
Total capital before applying the effect of the transition	34,601	33,248	31,890	30,669	29,836
Weighted average of risk assets					
Total weighted average of risk assets	265,227	259,788	247,447	242,446	235,535
Ratio of capital adequacy according to instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.35	10.22	10.25	10.17	10.16
Ratio of common equity tier 1 before applying the effect of the transition	10.24	10.08	10.07	9.97	9.99
Tier 1 capital ratio	10.35	10.22	10.25	10.17	10.16
Tier 1 capital ratio before applying the effect of the transition	10.24	10.08	10.07	9.97	9.99
Ratio of total capital	13.15	12.91	13.03	12.79	12.83
Ratio of total capital before applying the effect of the transition	13.04	12.77	12.84	12.59	12.65
Ratio of common equity tier 1 required by the Supervisor of Banks	9.19	9.19	9.19	9.19	9.18
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.16	1.03	1.06	0.98	0.98
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	430,278	427,263	412,180	410,083	397,698
Leverage ratio (in %)	6.4	6.2	6.2	6.0	6.0
Leverage ratio before applying the effect of the transition	6.3	6.1	6.1	5.9	5.8
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	72,531	74,252	79,444	79,544	72,896
Total cash outflows	53,923	54,085	60,884	63,464	60,104
Liquidity coverage ratio (in %)	134.5	137.3	130.5	125.3	121.3
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	250,037	250,082	244,328	244,403	242,323
Total required stable funding (RSF)	203,821	200,434	195,706	201,347	194,396
Net stable funding ratio (NFSR) in percentages	122.7	124.8	124.8	121.4	124.7

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared according to the reporting directives of the Supervisor of Banks on "disclosure requirements detailed in the third Pillar of Basel and additional information on 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 2022, together with the Annual Report for 2022 and the Second Quarter of 2023 Report. For further details, see the Risks Report published as part of the Annual Report for 2022.

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 on 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 half of 2023

Issue of debt instruments within the framework of an international private placement. On January 26, 2023, the Bank completed an international private placement of US dollar bonds, being the first in its history, in a principal amount of US\$800 million ("the bonds"), which were issued to institutional investors, within the meaning of the term in the Articles of the Tel Aviv Stock Exchange Ltd. ("the Stock Exchange" and "the issue", respectively).

The bonds were issued at a price of 99.935% of their par value. The gross proceeds of the issue amounted to US\$799.48 million. The issue price comprises a margin of 190 basis points over that of US government bonds of an identical average period to maturity.

The bonds have been registered for trading on the "TASE-UP" system of the Stock Exchange.

IDB Bank. For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment – Additional Details" in the Second Quarter of 2023 Report.

The banking corporation's approach to risk management

For details see in the Risks Report, which was published as part of the 2022 Annual Report (pp. 6–16).

For details on the Risk profile of the Discount Group and for details on Risk Factors Table, see in the Chapter C to the Directors and Management Report – "Risks review" in the 2022 Annual Report (pp. 63–64, 109–112).

Material leading and developing risks

The Bank considers macro environment risk, business model risks, cyber and data protection risks, model 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 2022 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
	30.06.2023	31.03.2023	30.06.2023
	in NIS millions		
Credit risk – standardised approach	226,635	222,570	28,329
Counterparty credit risk (standardised approach)	6,027	6,083	753
Credit valuation adjustment (CVA)	2,430	2,428	304
Securitization exposure (standardised approach)	324	316	41
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,727	5,632	716
Total credit risk	241,143	237,029	30,143
Market risk (standardised approach)	5,200	4,747	650
Operational risk	18,884	18,012	2,361
Total	265,227	259,788	33,154

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

For details on 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 2022 Annual Report (pp. 115–124).

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

For details on the summary of movement and changes in risk-weighted assets and on 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 2022 Annual Report (p. 18).

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	June 30, 2023	December 31, 2022	December 31, 2022
	in NIS millions		
A. Common Equity Tier 1			
Common equity	27,682	24,093	25,478
Difference between common equity and common equity tier 1	(310)	(248)	(262)
Total common equity tier 1 before supervisory adjustments and deductions	27,372	23,845	25,216
Supervisory adjustments and deductions			
Goodwill and other intangible assets	175	260	175
Supervisory adjustments and other deductions	22	28	25
Total supervisory adjustments and deductions before effect of adjustments for the efficiency plan and before effect of adjustment for expected credit losses	197	288	200
Total adjustments in respect to the efficiency plan	156	248	202
Total adjustments for expected credit losses	117	134	135
Total common equity tier 1 after supervisory adjustments and deductions	27,448	23,939	25,353
B. Additional tier 1 capital			
Additional tier 1 capital before supervisory adjustments and deductions	-	-	-
Total additional tier 1 capital after supervisory adjustments and deductions	-	-	-
C. Tier 2 capital			
Instruments before deductions	4,315	3,487	3,942
Allowance for credit losses before deductions	3,014	2,692	2,839
Minority interests in a subsidiary	105	96	97
Total tier 2 capital before deductions	7,434	6,275	6,878
Deductions	-	-	-
Total tier 2 capital	7,434	6,275	6,878

For details on the connection between the balance sheet and the components of the regulatory capital, see the Risks Report, which was published as part of the 2022 Annual Report (pp. 118–124).

Capital adequacy

For details on "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 on risk", which was published as part of the 2022 Annual Report, and is open for review as stated (pp. 22–25).

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 on the factors which may affect the leverage ratio, see Note 25 item 2 to the financial statements as of December 31, 2022, p. 231).

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

	June 30, 2023	December 31, 2022	December 31, 2022
	NIS millions		
Total assets according to the consolidated financial statements	391,815	364,421	376,754
Adjustment for investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments for 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 for derivative financial instruments	(2,337)	(2,329)	(2,597)
Adjustments for SFTs	-	-	-
Adjustments for off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	38,170	33,529	35,607
Other adjustments	2,630	2,077	2,416
Exposure for the purpose of the leverage ratio	430,278	397,698	412,180

Disclosure of the leverage ratio (LR2)

	June 30,	December 31,	
	2023	2022	2022
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	377,765	349,591	362,878
Asset amounts deducted in determining Tier 1 capital	(193)	(280)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	377,572	349,311	362,683
Derivative exposures			
Replacement cost associated with all derivatives transactions	5,561	5,817	4,837
Add-on amounts for PFE associated with all derivatives transactions	4,501	2,875	3,986
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	10,062	8,692	8,823
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	4,474	6,166	5,067
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	-	-	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	4,474	6,166	5,067
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	147,847	132,221	138,814
Adjustments for conversion to credit equivalent amounts	(109,677)	(98,692)	(103,207)
Total off-balance sheet items	38,170	33,529	35,607
Capital and total exposures			
Tier 1 capital	⁽¹⁾ 27,448	⁽¹⁾ 23,939	⁽¹⁾ 25,353
Total exposures	430,278	397,698	412,180
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.4	6.0	6.2

Footnotes:

(1) The Tier 1 capital and the total exposure are presented after the relief granted by the Supervisor of Banks for the efficiency plans.

(2) The amounts of exchange costs and the addition in respect of the future potential exposure multiplied by the Alpha coefficient used for the computation of the regulatory exposure at default (EAD), according to the standardised approach to counterparty credit risk (SA-CCR).

Credit Risk

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

For general information on credit risk quality (CRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 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. 28-35) and in the Second Quarter of 2023 Report.

Credit risk by economic sectors

Presented below are data on credit risk by economic sectors.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

June 30, 2023											
Total Credit Risk ⁽¹⁾					Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Of which: Credit Performance Rating ⁽¹⁰⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Credit Losses ⁽⁴⁾			
								Of which: Non- accruing credit risk	Periodic Credit Loss Expenses	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Lending Activity in Israel											
Agriculture	1,787	1,733	15	39	1,782	1,453	15	5	6	2	33
Mining & Quarrying	536	536	-	-	536	388	-	-	2	-	9
Industry	18,397	17,606	527	264	17,803	9,559	527	111	35	14	256
Construction and Real Estate - Construction	⁽⁶⁾ 52,393	51,086	1,004	303	⁽⁶⁾ 52,370	25,338	1,004	751	61	8	545
Construction and Real Estate - Real Estate Activity	17,498	16,924	481	93	17,386	14,925	481	391	60	23	385
Electricity and Water	7,509	7,450	29	30	6,776	4,270	29	-	(13)	1	90
Commerce	29,833	28,473	728	632	29,607	23,533	723	126	71	23	378
Hotels, Hotel Services and Food	2,222	2,040	127	55	2,143	1,854	127	20	(1)	-	42
Transportation and Storage	7,900	7,554	235	111	7,717	5,520	235	72	5	21	112
Communication and Computer Services	2,981	2,792	138	51	2,932	2,007	138	109	68	3	116
Financial Services	30,220	30,140	28	52	24,702	16,334	27	2	30	(2)	127
Other Business Services	8,456	7,925	88	443	8,444	5,888	88	21	(7)	(3)	144
Public and Community Services	11,696	11,289	312	95	11,685	10,227	312	19	(18)	1	151
Total Commercial	191,428	185,548	3,712	2,168	183,883	121,296	3,706	1,627	299	91	2,388
Private Individuals - Housing Loans	76,001	75,032	327	642	76,001	67,497	327	239	25	1	296
Private Individuals - Other	74,107	70,768	599	2,740	74,102	33,410	599	177	148	94	903
Total Public	341,536	331,348	4,638	5,550	333,986	222,203	4,632	2,043	472	186	3,587
Banks in Israel Israeli Government	4,519	4,519	-	-	3,497	3,489	-	-	1	-	3
Total Lending Activity in Israel	382,325	372,137	4,638	5,550	338,619	226,828	4,632	2,043	473	186	3,590

For footnotes see next page

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

	June 30, 2023										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁴⁾	Of which: Credit Performance Rating ⁽⁵⁾	Of which: Problematic credit risk ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽⁶⁾	Problematic ⁽⁶⁾	Of which: Non-accruing credit risk	Credit Losses ⁽⁴⁾		
									Periodic Credit Loss Expenses	Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Agriculture	125	11	-	114	125	125	-	-	-	-	1
Mining & Quarrying	280	280	-	-	-	-	-	-	-	-	-
Industry	5,645	4,935	205	505	5,274	3,192	205	23	(2)	(3)	47
Construction and Real Estate - Construction	234	228	-	6	234	62	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	15,481	11,983	1,630	1,868	15,370	13,086	1,601	24	43	(6)	186
Electricity and Water	687	687	-	-	396	303	-	-	(1)	-	3
Commerce	11,659	10,425	551	683	11,523	7,107	550	6	(3)	(3)	84
Hotels, Hotel Services and Food	1,891	1,533	323	35	1,864	1,822	323	47	1	-	9
Transportation and Storage	548	548	-	-	371	347	-	-	(1)	-	8
Communication and Computer Services	638	532	106	-	481	428	106	3	2	-	12
Financial Services	12,645	12,538	-	107	2,396	1,466	-	-	5	-	26
Of which: Federal agencies in the U.S.											
⁽⁷⁾	8,190	8,190	-	-	-	-	-	-	-	-	-
Other Business Services	848	718	66	64	710	510	66	-	2	-	15
Public and Community Services ⁽⁸⁾	5,366	3,996	793	577	4,887	4,553	786	39	1	-	42
Total Commercial	56,047	48,414	3,674	3,959	43,631	33,001	3,637	142	47	(12)	434
Private Individuals - Housing Loans	463	457	-	6	463	428	-	-	(8)	-	6
Private Individuals - Other	2,003	1,646	305	52	2,000	1,136	305	-	(1)	-	4
Total Public	58,513	50,517	3,979	4,017	46,094	34,565	3,942	142	38	(12)	444
Banks Outside of Israel	5,779	5,779	-	-	3,774	3,656	-	-	-	1	7
Governments Outside of Israel	8,475	8,475	-	-	2,944	1,922	-	-	5	-	26
Total Lending Activity Outside of Israel	72,767	64,771	3,979	4,017	52,812	40,143	3,942	142	43	(11)	477
Total	455,092	436,908	8,617	9,567	391,431	266,971	8,574	2,185	516	175	4,067

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 266,971 million, NIS 52,707 million, NIS 1,024 million, NIS 2,969 million, NIS 131,421 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 for Maof Market operations.
- (3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.
- (4) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet, credit risk, which is non-accruing, substandard or under special mention.
- (6) Including acquisition groups in an amount of NIS 311 million.
- (7) Including mortgage backed securities in the amount of NIS 7,956 million, issued by GNMA and in the amount of NIS 234 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 10,195 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 107 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)

		June 30, 2022													
Total Credit Risk ⁽¹⁾		Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾													
		Of which: Credit Performance Rating ⁽¹⁰⁾⁽¹²⁾		Of which: Problematic credit risk ⁽⁵⁾		Non- problematic credit risk, not in credit granting rating		Of which: Total Debts ⁽²⁾⁽¹⁰⁾		Problematic ⁽⁵⁾		Credit Losses ⁽⁴⁾			
Total ⁽⁹⁾⁽¹²⁾		Rating ⁽¹⁰⁾⁽¹²⁾		Problematic credit risk ⁽⁵⁾		Non- problematic credit risk, not in credit granting rating		Of which: Total Debts ⁽²⁾⁽¹⁰⁾		Problematic ⁽⁵⁾		Credit Losses ⁽⁴⁾			
												Net Balance of Allowance for Credit Losses			
												Periodic Credit Loss Expenses (expense release)		Accounting Write-Offs (Collection) Recognized during the Period	
												Of which: Non- accruing credit risk			
													in NIS millions		
Lending Activity in Israel															
Agriculture	1,632	1,573	22	37	1,632	1,321	22	8	4	2	33				
Mining & Quarrying	283	282	-	1	273	203	-	-	(7)	(2)	3				
Industry	17,133	16,393	496	244	16,743	9,600	496	191	4	14	279				
Construction and Real Estate - Construction	⁽⁹⁾ 45,333	44,349	682	302	⁽⁹⁾ 45,295	21,817	682	429	(3)	4	367				
Construction and Real Estate - Real Estate Activity	15,541	14,999	377	165	15,470	13,371	376	234	6	1	261				
Electricity and Water	6,348	6,319	16	13	5,682	3,925	16	-	37	(1)	111				
Commerce	24,180	23,265	412	503	23,929	19,132	412	149	(25)	8	333				
Hotels, Hotel Services and Food	2,220	1,990	144	86	2,220	1,905	144	14	(16)	(2)	47				
Transportation and Storage	6,958	6,529	325	104	6,769	5,347	325	153	7	2	154				
Communication and Computer Services	3,009	2,653	74	282	2,928	1,858	74	42	17	-	55				
Financial Services	26,436	26,269	66	101	19,159	14,255	66	-	2	1	120				
Other Business Services	8,616	8,017	169	430	8,579	5,999	169	42	(4)	21	180				
Public and Community Services	11,520	11,032	331	157	11,493	9,984	331	5	31	(2)	132				
Total Commercial	169,209	163,670	3,114	2,425	160,172	108,717	3,113	1,267	53	46	2,075				
Private Individuals - Housing Loans	70,301	69,410	314	⁽¹²⁾ 577	70,301	60,395	314	239	33	7	242				
Private Individuals - Other	70,786	68,679	450	1,657	70,782	31,621	450	165	79	50	798				
Total Public	310,296	301,759	3,878	4,659	301,255	200,733	3,877	1,671	165	103	3,115				
Banks in Israel	3,107	3,107	-	-	1,628	1,597	-	-	-	-	2				
Israeli Government	26,585	26,585	-	-	966	966	-	-	-	-	-				
Total Lending Activity in Israel	339,988	331,451	3,878	4,659	303,849	203,296	3,877	1,671	165	103	3,117				

For footnotes see next page

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

	June 30, 2022											
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾							
	Total ⁽¹⁾⁽¹²⁾	Of which: Credit Performance Rating ⁽¹⁰⁾⁽¹²⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Of which: Non- accruing credit risk	Credit Losses ⁽⁴⁾			Balance of Allowance for Credit Losses
									Periodic Credit Loss Expenses (expense release)	Accounting Write-Offs (Collection) Recognized during the Period	Net Balance of Allowance for Credit Losses	
in NIS millions												
Lending Activity Outside of Israel												
Agriculture	235	112	-	123	235	146	-	-	-	-	1	
Mining & Quarrying	378	378	-	-	-	-	-	-	-	-	-	
Industry	5,833	5,333	191	309	5,627	3,665	191	-	-	24	37	
Construction and Real Estate - Construction	210	189	-	21	210	73	-	-	1	-	2	
Construction and Real Estate - Real Estate Activity	13,892	12,109	692	1,091	13,700	11,656	690	75	(39)	(29)	99	
Electricity and Water	869	869	-	-	522	366	-	-	-	-	7	
Commerce	10,654	9,787	546	321	10,625	7,601	546	-	(9)	-	66	
Hotels, Hotel Services and Food	1,920	1,043	697	180	1,894	1,788	695	189	(27)	-	14	
Transportation and Storage	1,071	1,014	-	57	891	875	-	-	(6)	-	15	
Communication and Computer Services	340	337	3	-	268	208	3	3	-	-	3	
Financial Services	11,374	11,332	24	18	2,417	1,692	24	-	(5)	-	19	
Of which: Federal agencies in the U.S. ⁽⁷⁾	7,394	7,394	-	-	-	-	-	-	-	-	-	
Other Business Services	988	907	58	23	876	605	58	-	(1)	-	10	
Public and Community Services ⁽⁸⁾	5,096	4,308	411	377	4,615	4,276	408	-	(8)	-	42	
Total Commercial	52,860	47,718	2,622	2,520	41,880	32,951	2,615	267	(94)	(5)	315	
Private Individuals - Housing Loans	402	396	5	1	402	394	4	4	1	-	12	
Private Individuals - Other	2,171	2,042	9	120	2,169	1,432	9	-	-	-	5	
Total Public	55,433	50,156	2,636	2,641	44,451	34,777	2,628	271	(93)	(5)	332	
Banks Outside of Israel	6,161	6,161	-	-	3,722	3,626	-	-	-	-	6	
Governments Outside of Israel	8,907	8,907	-	-	2,544	1,664	-	-	(1)	-	22	
Total Lending Activity Outside of Israel	70,501	65,224	2,636	2,641	50,717	40,067	2,628	271	(94)	(5)	360	
Total	410,489	396,675	6,514	7,300	354,566	243,363	6,505	1,942	71	98	3,477	

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 243,363 million, NIS 42,080 million, NIS 1,330 million, NIS 11,023 million, NIS 112,693 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 for Maof Market operations.
- (3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.
- (4) Including for off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet, credit risk, which is non-accruing, substandard or under special mention.
- (6) Including acquisition groups in an amount of NIS 457 million.
- (7) Including mortgage backed securities in the amount of NIS 7,168 million, issued by GNMA and in the amount of NIS 226 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 8,216 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 282 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) Reclassified - following improvement of data.

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

	December 31, 2022										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽¹⁾⁽¹²⁾	Of which: Performance Rating ⁽¹⁾⁽¹²⁾	Of which: Problematic credit risk ⁽⁵⁾	Non- problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Of which: Non- accruing credit risk	Credit Losses ⁽⁴⁾		
									Periodic Credit Loss Expenses (expense release)	Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
in NIS millions											
Lending Activity in Israel											
Agriculture	1,673	1,583	20	70	1,671	1,390	20	8	-	2	29
Mining & Quarrying	393	392	-	1	392	299	-	-	(3)	(2)	7
Industry	17,150	16,350	489	311	16,733	9,566	488	176	31	58	256
Construction and Real Estate -											
Construction	⁽⁶⁾ 49,160	47,713	1,219	228	⁽⁶⁾ 49,139	22,853	1,219	278	153	24	493
Construction and Real Estate - Real Estate Activity	16,195	15,681	362	152	16,115	14,049	343	219	61	2	325
Electricity and Water	6,919	6,890	13	16	6,130	3,844	13	-	31	-	104
Commerce	27,091	26,073	490	528	26,867	21,446	487	119	(42)	9	316
Hotels, Hotel Services and Food	2,135	1,964	114	57	2,094	1,785	114	12	(19)	(1)	43
Transportation and Storage	6,856	6,453	271	132	6,679	5,505	271	113	(16)	5	128
Communication and Computer Services	2,689	2,505	99	85	2,652	1,705	99	49	12	-	51
Financial Services	25,399	24,950	5	444	20,936	14,144	5	1	(4)	21	94
Other Business Services	8,572	7,974	142	456	8,550	6,047	142	28	(14)	45	145
Public and Community Services	11,757	11,173	484	100	11,747	10,193	484	130	69	(3)	172
Total Commercial	175,989	169,701	3,708	2,580	169,705	112,826	3,685	1,133	259	160	2,163
Private Individuals - Housing Loans	73,227	72,267	313	⁽¹²⁾ 647	73,227	64,891	313	229	61	5	271
Private Individuals - Other	72,936	70,216	481	2,239	72,932	32,866	481	81	163	115	818
Total Public	322,152	312,184	4,502	5,466	315,864	210,583	4,479	1,443	483	280	3,252
Banks in Israel	2,634	2,634	-	-	1,512	1,482	-	-	-	-	1
Israeli Government	27,275	27,275	-	-	912	912	-	-	-	-	-
Total Lending Activity in Israel	352,061	342,093	4,502	5,466	318,288	212,977	4,479	1,443	483	280	3,253

For footnotes see next page

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

December 31, 2022											
Total Credit Risk ⁽¹⁾					Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
					Credit Losses ⁽⁴⁾						
					Of which:		Of which:		Net		
					Non-		Non-		Accounting		
					accruing		accruing		Write-Offs		
					credit		credit		(Collection)		
					risk		risk		Recognized		
					release)		release)		during the		
					Period		Period		allowance		
					for credit		for credit		of credit		
					loss		loss		loss		
					in NIS millions						
Lending Activity Outside of Israel											
Agriculture	122	122	-	-	122	118	-	-	(1)	-	1
Mining & Quarrying	309	309	-	-	-	-	-	-	-	-	-
Industry	5,754	5,394	250	110	5,493	3,421	250	34	6	23	47
Construction and Real Estate - Construction	211	208	-	3	211	69	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	14,312	12,315	999	998	14,191	12,344	997	26	(36)	(60)	133
Electricity and Water	781	781	-	-	417	315	-	-	(3)	-	4
Commerce	10,907	10,285	441	181	10,843	7,523	439	-	9	8	79
Hotels, Hotel Services and Food	1,707	1,140	352	215	1,680	1,612	350	58	(34)	-	8
Transportation and Storage	578	578	-	-	428	407	-	-	(13)	-	8
Communication and Computer Services	532	494	38	-	444	360	38	3	7	-	10
Financial Services	10,569	10,555	-	14	1,966	1,294	-	-	(4)	-	20
Of which: Federal agencies in the U.S. ⁽⁷⁾	6,963	6,963	-	-	-	-	-	-	-	-	-
Other Business Services	860	719	72	69	624	422	72	-	1	-	12
Public and Community Services ⁽⁸⁾	4,954	3,913	514	527	4,475	4,151	511	8	(9)	-	39
Total Commercial	51,596	46,813	2,666	2,117	40,894	32,036	2,657	129	(77)	(29)	362
Private Individuals - Housing Loans	447	435	-	12	447	434	-	-	2	-	14
Private Individuals - Other	2,020	1,882	48	90	2,016	1,235	48	-	(1)	-	3
Total Public	54,063	49,130	2,714	2,219	43,357	33,705	2,705	129	(76)	(29)	379
Banks Outside of Israel	4,502	4,502	-	-	2,745	2,644	-	-	-	-	5
Governments Outside of Israel	8,780	8,780	-	-	2,473	1,710	-	-	-	-	25
Total Lending Activity Outside of Israel	67,345	62,412	2,714	2,219	48,575	38,059	2,705	129	(76)	(29)	409
TOTAL	419,406	404,505	7,216	7,685	366,863	251,036	7,184	1,572	407	251	3,662

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts⁽²⁾, bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 251,036 million, NIS 43,001 million, NIS 857 million, NIS 2,363 million, NIS 122,149 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 for Maof Market operations.
- (3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding for derivative instruments.
- (4) Including for 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 for housing loans, for which an allowance is made according to the extent of arrears, and housing loans for 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 519 million.
- (7) Including mortgage backed securities in the amount of NIS 6,724 million, issued by GNMA and in the amount of NIS 239 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 9,407 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 218 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) Reclassified - following improvement of data.

Credit Exposure to Foreign Financial Institutions

About 98% of the exposure as of June 30, 2023, is to financial institutions rated "A-" rating or higher, similar to December 31, 2022. For additional details, see the Report for the second quarter of 2023.

Drafts and Instructions published during the first half of 2023

High risk transactions for the purchase of land. An update of a Q&A file was published on January 23, 2023, for the implementation of Proper Conduct of Banking Business Directive dealing with capital adequacy requirements: following entry into effect of higher capital requirements in respect of high risk transactions for the purchase of land, the need had arisen for clarification relating to the manner of calculating the financing ratio.

Adopting consumer measures in a changing financial environment. On February 26, 2023, the Supervisor of Banks published a letter regarding adoption of consumer measures in a changing financial environment, in which it is stated that banking corporations are expected to adopt different measures for the monitoring of borrowers wishing to prepare for situations of possible difficulty in the monthly repayment of their debt, and invite them to examine different ways of mitigating their cash flow situation, as well as continue to study alternatives relating to the customer's compliance with the monthly repayments, all while providing a suitable, timely and professional response to the customer's approach and needs, while focusing on singular characteristics of the different population groups and on the different channels and languages by which the service is provided.

Financial Stability Report for the first half of 2023

On August 2, 2023, the Bank of Israel published the said Report, the principal items of which are: The local financial system remained stable. The uncertainty concerning the legislation amendments has increased the risk premium of the economy, which was accompanied by a devaluation of the exchange rate which contributed to inflation, by a decline in prices of shares and by increased fluctuation in the foreign currency market and in the financial markets. The security buffers accumulated by households and corporations strengthened their durability in facing potential turbulence. The financial system in the economy has been affected by two main factors: one, the continuing monetary tightening and the slowing down of economic growth in Israel and globally; and the other, the effect of the uncertainty surrounding the implications of legislation amendments relating to the legal system in Israel upon the performance of the economy and on the financial system as a whole. The Bank of Israel estimates that if these processes – in Israel and globally – intensify, they may challenge the system in the medium range. The required monetary tightening due to the continuing inflation and the slowing down of economic growth were reflected in the rising risk indices – and with them in pricing – in the real estate market and in the financial markets, and by an increase in credit costs. On this background, households and businesses are facing the increased burden of servicing debts. Despite the growing amount of the monthly repayment of debts, the repayment ability of households – principally respecting housing loans – remained high. Notwithstanding the above, consumer credit originating outside the banking system, recorded a certain increase in the rate of arrears. In the business credit, risk indicators increased with respect to the construction and real estate sectors, to which the financial system is particularly exposed. No deterioration is noticed in the other economic sectors.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Non-accruing debts or in arrears for 90 days or over	Other		
June 30, 2023 in NIS millions				
Debts, excluding bonds	2,297	260,862	3,590	259,569
Bonds	-	42,498	-	42,498
Off-balance sheet exposure	42	142,305	466	141,881
Total	2,339	445,665	4,056	443,948

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
June 30, 2022 in NIS millions				
Debts, excluding bonds	1,990	236,313	3,055	235,248
Bonds	1	39,369	-	39,370
Off-balance sheet exposure	51	127,345	403	126,993
Total	2,042	403,027	3,458	401,611

December 31, 2022				
Debts, excluding bonds	1,508	245,304	3,216	243,596
Bonds	1	39,333	-	39,334
Off-balance sheet exposure	52	132,440	424	132,068
Total	1,561	417,077	3,640	414,998

For details on changes in the balance of non-accruing debts and in the balance of restructured troubled debts (CR2) and for the additional disclosure on the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 36).

Qualitative disclosure requirements on credit risk mitigation techniques (CRC)

For details on credit risk mitigation and mitigating the risk for credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 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. 47-48).

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured			Secured					
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
in NIS millions									
June 30, 2023									
Debts, excluding bonds	214,875	44,694	18,203	35,073	8,582	9,621	9,621	-	-
Bonds	42,498	-	-	-	-	-	-	-	-
Total	257,373	44,694	18,203	35,073	8,582	9,621	9,621	-	-
Of which: non-accruing debts or in arrears for 90 days or over	1,259	1,756	880	157	42	1,599	838	-	-
June 30, 2022									
Debts, excluding bonds	192,516	42,732	15,787	35,849	8,904	6,883	6,883	-	-
Bonds	39,370	-	-	-	-	-	-	-	-
Total	231,886	42,732	15,787	35,849	8,904	6,883	6,883	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,462	1,246	685	179	30	1,067	655	-	-
December 31, 2022									
Debts, excluding bonds	200,019	43,577	18,592	34,814	9,829	8,763	8,763	-	-
Bonds	39,334	-	-	-	-	-	-	-	-
Total	239,353	43,577	18,592	34,814	9,829	8,763	8,763	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,623	1,104	632	189	27	915	605	-	-

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									
June 30, 2023									
Sovereigns, their central banks and national monetary authority	88,149	36	-	-	-	-	212	74	88,471
Public sector entities (PSE) which are not central governments	1,986	8,598	-	1,450	-	-	6	-	12,040
Banks (including multilateral development banks)	-	13,094	-	80	-	-	19	-	13,193
Securities corporations	-	394	-	-	-	-	-	-	394
Corporations	-	11,082	-	6,368	-	-	80,931	1,843	100,224
Retail exposures for private individuals	-	-	-	-	-	34,545	450	-	34,995
Loans to small businesses	-	-	-	-	-	14,465	10	-	14,475
Secured by residential property	-	-	16,524	21,902	21,214	7,932	1,258	-	68,830
Secured by commercial real estate	-	-	-	-	-	-	44,576	-	44,576
Loans in arrears	-	-	-	-	-	-	524	1,888	2,412
Other assets	2,112	-	-	-	-	-	7,838	1,564	11,514
Of which: for shares	-	-	-	-	-	-	653	1,125	1,778
Total	92,247	33,204	16,524	29,800	21,214	56,942	135,824	5,369	391,124
June 30, 2022									
Sovereigns, their central banks and national monetary authority	94,323	14	-	-	-	-	193	40	94,570
Public sector entities (PSE) which are not central governments	1,720	8,106	-	1,480	-	-	89	-	11,395
Banks (including multilateral development banks)	-	9,372	-	58	-	-	36	-	9,466
Securities corporations	-	478	-	-	-	-	-	-	478
Corporations	-	12,480	-	917	-	-	⁽¹⁾ 76,964	238	90,599
Retail exposures for private individuals	-	-	-	-	-	33,046	292	-	33,338
Loans to small businesses	-	-	-	-	-	14,286	34	-	14,320
Secured by residential property	-	-	15,519	19,888	17,130	8,257	1,095	-	61,889
Secured by commercial real estate	-	-	-	-	-	-	⁽¹⁾ 37,560	-	37,560
Loans in arrears	-	-	-	-	-	-	618	1,501	2,119
Other assets	2,038	38	-	-	-	-	6,787	1,522	10,385
Of which: in respect of shares	-	-	-	-	-	-	747	1,103	1,850
Total	98,081	30,488	15,519	22,343	17,130	55,589	123,668	3,301	366,119
December 31, 2022									
Sovereigns, their central banks and national monetary authority	97,390	52	-	-	-	-	232	120	97,794
Public sector entities (PSE) which are not central governments	1,756	8,242	-	1,419	-	-	71	-	11,488
Banks (including multilateral development banks)	-	7,925	-	73	-	-	51	-	8,049
Securities corporations	-	626	-	-	-	-	-	-	626
Corporations	-	10,106	-	5,988	-	-	⁽¹⁾ 75,971	1,348	93,414
Retail exposures for private individuals	-	-	-	-	-	34,208	142	-	34,350
Loans to small businesses	-	-	-	-	-	14,415	15	-	14,430
Secured by residential property	-	-	16,174	21,297	19,630	8,066	1,234	-	66,401
Secured by commercial real estate	-	-	-	-	-	-	⁽¹⁾ 40,746	-	40,746
Loans in arrears	-	-	-	-	-	-	445	1,790	2,235
Other assets	1,864	37	-	-	-	-	7,319	1,590	10,810
Of which: for shares	-	-	-	-	-	-	612	1,142	1,754
Total	101,010	26,988	16,174	28,777	19,630	56,689	126,227	4,848	380,343

Footnote:

(1) Following examination of the definition of the commercial real estate segment, starting with the interim financial statements as of June 30, 2023, amounts have been classified from the corporations segment to the commercial real estate segment. The comparative data has been reclassified accordingly.

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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 52–53).

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

	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
June 30, 2023 in NIS millions					
Current exposure method	2,745	3,021	1.4	8,066	3,743
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	-	4,835	2,080
Total	2,745	3,021	-	12,901	5,823
	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
June 30, 2022 in NIS millions					
Current exposure method		5,684	2,344	5,478	2,397
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])		-	-	3,975	2,392
Total		5,684	2,344	9,453	4,789
	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
December 31, 2022 in NIS millions					
Current exposure method	2,379	2,700		7,110	2,952
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-		3,906	2,587
Total	2,379	2,700		11,016	5,539

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	June 30, 2023	
Total portfolios for which CVA is calculated according to the standardised approach	8,269	2,430
	June 30, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	5,340	1,526
	December 31, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	6,890	2,077

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

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

	0%	20%	50%	75%	100%	Total credit exposure
	in NIS millions					
	June 30, 2023					
Sovereigns	1,063	-	-	-	-	1,063
Public sector entities (PSE) which are not central governments	-	411	-	-	-	411
Banks (including multilateral development banks)	-	4,546	-	-	3	4,549
Securities corporations	-	2,481	-	-	-	2,481
Commercial real estate	-	-	-	-	164	164
Corporations	-	-	128	-	4,053	4,181
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	18	18
Small business	-	-	-	-	34	34
Total	1,063	7,438	128	-	4,272	12,901
	December 31, 2022					
Sovereigns	891	-	-	-	-	891
Public sector entities (PSE) which are not central governments	-	451	-	-	-	451
Banks (including multilateral development banks)	-	3,154	-	-	3	3,157
Securities corporations	-	2,093	-	-	-	2,093
Corporations	-	-	54	-	4,329	4,383
Housing mortgages	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	19	19
Small business	-	-	-	-	22	22
Total	891	5,698	54	-	4,373	11,016

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

	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral obtained		Fair value of collateral deposited		Fair value of collateral obtained	Fair value of collateral deposited
	Detached	Undetached	Detached	Undetached		
in NIS millions						
June 30, 2023						
Cash – local currency	716	234	2	397	-	-
Cash – other currencies	-	2,612	-	1,025	-	268
Domestic sovereign debt	-	14	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	1	-	-	-	-
Shares	-	1,281	-	-	-	-
Other collateral	-	212	-	-	2,350	-
Total	716	4,355	2	1,422	2,350	268
December 31, 2022						
Cash – local currency	742	⁽¹⁾ 122	6	139	-	-
Cash – other currencies	-	⁽¹⁾ 2,821	-	1,061	-	⁽¹⁾ 216
Domestic sovereign debt	-	⁽¹⁾ 8	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	⁽¹⁾ 1	-	-	-	-
Shares	-	⁽¹⁾ 686	-	-	-	-
Other collateral	-	⁽¹⁾ 137	-	-	1,918	-
Total	742	3,775	6	1,200	1,918	216

Footnote:

(1) Improvement of data.

Market Risk

For the general qualitative disclosure on market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 57-72).

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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 60).

(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 on 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

	Effect of 100BP as of June 30, 2023	Effect of 100BP as of December 31, 2022	Liabilities	Effect of 100BP as of June 30, 2023	Effect of 100BP as of December 31, 2022
Assets					
	June 30, 2023	December 31, 2022		June 30, 2023	December 31, 2022
in NIS millions					
Credit	3,209	3,106	Deposits	1,112	1,274
Available-for-sale securities portfolio	797	732	Debt notes	461	418
Trading securities portfolio	5	36	Off balance-sheet (derivatives)	270	221
Held-to-maturity securities portfolio	536	576	Current account spreading	1,789	1,845
Off balance-sheet (derivatives)			Employee rights	230	258
Other	15	18	Other	148	3
Total	4,563	4,467	Total	4,012	4,020

(3) Additional information – models and risk indices

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 62).

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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 63).

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 quarter ended:			
	June 30, 2023		December 31, 2022	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(551)	(573)	(447)	(845)
Limitation set by the Board of Directors	(1,858)	-	(1,676)	-
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 capital scenarios. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 63).

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

	For the period ended			
	June 30, 2023		December 31, 2022	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(396)	(409)	(149)	(609)
Limitation set by the Board of Directors	(1,858)	-	(1,676)	-

The increase in the results of the scenario in the first half stems from the updating of the parameters of the scenario and not as a result of a change in exposure. The results of the scenario based on the old or the new parameters would have led to similar results in both periods.

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 second quarter of 2023.

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

	Second quarter		End of year	
	2023		2022	
	End of quarter	Maximum exposure during the quarter	End of year	Maximum exposure during the year
in NIS millions				
Actual exposure	15.1	31.5	14.9	33.8
Limitation set by the Board of Directors	40		50	

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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 64).

For details on 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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 65).

(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, 2022. The principal change stems from the transfer of linkage segments of pension liabilities for 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 Bank has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.

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

The exposure is measured separately for each material currency.

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

Segment	Second Quarter of 2023					The year 2022		
	Limitation	Year end	Position range			Year end	From	To
			From	To	Average			
CPI linked*	80%-(80%)	44.7%	43.8%	45.2%	44.6%	40.7%	33.9%	40.7%
Foreign currency	15% - 30%	19.5%	18.5%	19.8%	19.3%	17.6%	16.8%	17.6%

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) according to customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

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

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers or its own account). In addition, limits of the Head of the Financial Markets Division were set for the scope of activity according to the types of instruments intended to delimit the operational risk involved in its activity. The volume of activity for 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 second quarter of 2023.

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 according to 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

	June 30, 2023	December 31, 2022
	in NIS millions	
Not for trading derivatives	92,545	77,571
Of which: hedging derivatives	13,623	9,811
Trading derivatives	417,713	370,618
Total	510,258	448,189

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 according to the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2022 (pp. 154-155, 246-252).

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 according to generally accepted accounting principles and the transactions in derivative financial instruments for 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, 2022 (p. 163).

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 second quarter of 2023.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required for the exposure to market risks according to 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 for IDB Bank according to the approval of the Supervisor of Banks).

In addition, for each of the above mentioned risks, an optional component shall be added, according to the "delta plus" method of the instruments included.

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

	Capital allocation as of	
	June 30, 2023	December 31, 2022
	In NIS millions	
Interest rate risk*	551	419
Foreign exchange rate risk	86	24
Share risk	1	
Option risk	12	10
Total for the Banking Group	650	454
Allocation in risk asset terms	5,200	3,633

* Including the specific risk in the amount of NIS 1.6 million and NIS 1.8 million in June 2023 and December 2022, respectively.

The allocation to market risks in risk asset terms comprises approx. 2.0% of the total risk assets as of June 30, 2023, compared with approx. 1.46% as of December 31, 2022.

Interest rate risk in the banking book (IRRBB)

For details on behavioral economic models integrated in risk management and on behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 68–69).

For quantitative information on 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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 70–71).

Draft of update to Proper Conduct of Banking Business Directive no. 333 regarding interest rate risk in the banking book (IRRBB). The draft was distributed on May 24, 2023 and reflects the adoption of the Basel Committee's revised document. The draft puts forward principles pursuant to which a banking corporation will be required to manage the IRRBB and, in particular, requirements to take proactive action to identify, measure, monitor, control, and disclose such risks. The principal revisions to the IRBB management principles in the draft are as follows: more detailed guidelines regarding the manner in which the IRRBB is to be managed and, in particular, with regard to developing stress and shock scenarios in implementing interest-rate risk measurement (Principle 4), with regard to key behavioral and modelling assumptions in managing IRRBB (Principle 5), and with regard to the internal validation process that needs to be implemented for the internal measurement systems (IMS) and the models that are used to measure the IRRBB (Principle 6); a standard framework (optional or binding, as decided by the Supervisor of Banks) for managing IRRBB; redefining the "outlier banking corporation" test (set out in Principle 12).

A draft Q&A file relating to the implementation of the updated directive was distributed together with the draft. According to the draft, it will go into effect from December 31, 2024.

Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 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					
	June 30, 2023		June 30, 2022		December 31, 2022	
	In NIS millions					
	Total non-weighted value (average)	Total weighted value (average)	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)		72,531		72,896		79,444
Cash outflows						
Retail deposits from individuals and small businesses, of which:	161,925	9,853	150,907	10,890	156,533	10,324
Stable deposits	48,784	2,408	53,248	2,628	51,421	2,540
Less stable deposits	55,856	5,726	73,292	7,531	63,856	6,546
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	57,284	1,719	24,367	731	41,257	1,238
Unsecured wholesale financing, of which:	103,588	63,331	107,858	64,292	108,357	66,164
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	-	-	-	-
Deposits not for operational purposes (all counterparties)	101,978	63,261	106,431	64,226	107,063	66,088
Unsecured debts	1,610	70	1,427	66	1,294	76
Secured wholesale financing	-	48	-	137	-	202
Additional liquidity requirements, of which:	84,611	22,034	86,667	21,822	91,045	23,309
Cash outflows for exposure to derivatives and other collateral requirements	15,105	14,543	14,986	14,576	16,914	16,360
Cash outflows for loss of financing of debt products	-	-	-	-	-	-
Credit and liquidity facilities	69,506	7,491	71,681	7,246	74,131	6,949
Other contractual financing commitments	38,633	1,052	35,294	956	38,158	982
Other conditional financing commitments	2,931	102	2,853	96	2,927	98
Total cash outflows		96,420		98,193		101,079
Cash inflows						
Secured loans (e.g., Reverse repo transactions)	437	437	1,329	1,329	658	658
Cash inflows from regularly performing exposure	31,070	25,899	28,926	21,773	27,566	22,752
Other cash inflows	19,651	16,161	16,755	14,987	19,839	16,783
Total cash inflows	51,157	42,497	47,010	38,089	48,063	40,193
		Total adjusted value		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		72,531		72,896		79,444
Total net cash outflows		53,923		60,104		60,884
Liquidity Coverage Ratio		134.5%		121.3%		130.5%

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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 74–80).

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

For details on 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 on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 77–78).

The liquidity coverage ratio of the Discount Group

As of June 30, 2023, the ratio amounted to 135%, compared to 131.1% on December 31, 2022. The average liquidity ratio in the second quarter of 2023 amounted to 134.5% as compared with an average ratio of 130.5% in the fourth quarter of 2022.

The liquidity ratio has risen despite the growth in the credit portfolio as a result of the issuance of debt effected at the first half of the year, and the pledging of the mortgage portfolio.

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 Bank on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

Assets included		For the period ended	
		June 30, 2023	December 31, 2022
		in NIS millions	
Buffer 1	Cash	46,125	56,890
	Israel Bonds/Short-term loans (MAKAM)	13,966	9,054
	Foreign bonds	11,285	12,110
Buffer 2	Sovereigns bonds	25	224
	Mortgage bonds issued by public corporations	129	322
	Corporation Bonds AA	798	609
Buffer 2 b	Corporation Bonds A	203	228
Total		72,531	79,437

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 Bank to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB NY in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.

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

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

	For the period ended	
	June 30, 2023	December 31, 2022
	In %	
Discount Group	134.51%	130.47%
The Bank	156.34%	145.42%
IDB Bank	137.62%	112.17%
Mercantile Discount Bank	131.68%	134.18%
Total	134.5%	130.5%

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

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of June 30, 2023, the coverage ratio in shekels was 123.8% compared with 115.6% at December 31, 2022. The increase in the ratio stemmed mostly from the pledging of the mortgage portfolio, issuance of debt and from the effect of Shekel/Dollar swap transactions.

The liquidity coverage ratio as of June 30, 2023, respecting the total of foreign currencies, amounted to 191.8% compared to 234.8% on December 31, 2022. The decrease in the ratio stemmed from the effect of Shekel/Dollar swap operations.

The liquidity coverage ratio with respect to US dollars as of June 30, 2023 was 184.3% as compared with 212.2% on December 31, 2022. The decrease in the ratio stemmed from the decline in inflow of cash due to Dollar/Shekel swap operations.

In Euros, the liquidity coverage ratio at June 30, 2023, was 91.4% compared with 160.7% at December 31, 2022. The decrease in the ratio stemmed from the effect of Dollar/Euro swap operations.

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

Net Stable Funding Ratio (LIQ2)

	June 30, 2023				Weighted value
	With no repayment date	Non weighted value according to periods of repayment			
		Up to six months	From six months up to one year	One year or over	
Available stable funding items (AFS)					
Capital:	29,143	-	-	-	29,143
Regulatory capital	27,372	-	-	-	27,372
Other capital instruments	1,771	-	-	-	1,771
Retail deposits by individuals and small businesses:	-	138,989	20,188	1,960	148,378
Stable deposits	-	57,213	5,961	1,149	61,164
Less stable deposits	-	81,776	14,227	811	87,214
Wholesale funding:	-	134,165	18,788	4,853	54,829
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	134,165	18,788	4,853	54,829
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,298	661	17,357	17,687
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	2,298	-	-	-
All other liabilities and capital not included in the above categories	-	15,298	661	17,357	17,687
Total Available Stable Funding (AFS)	-	-	-	-	250,037
Total high quality liquid assets according to net stable funding ratio (HQLA)					
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	119,024	33,730	155,552	181,291
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	18,039	881	4,883	7,673
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	98,392	29,848	95,344	122,330
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	48,913	523	3,764	5,263
Performing housing loans secured by a mortgage, of which:	-	2,521	2,553	52,889	48,958
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	696	703	14,608	11,070
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	72	448	2,436	2,330
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	95	3,829	384	9,585	11,879
Commodities physically traded, including gold	95	-	-	-	95
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	17	17
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	186	186
All other classes of assets not included in the above categories	-	3,829	384	9,585	11,581
Off-balance sheet items	-	98,345	3,329	3,375	5,252
Total required stable funding (RSF)	-	-	-	-	204,179
Net stable funding ratio (NFSR) in percentages	-	-	-	-	122.46

Footnote:

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

Net Stable Funding Ratio (LIQ2) (continued)

	June 30, 2022				Weighted value
	Non weighted value according to periods of repayment				
	With no repayment date	From six months			
		Up to six months	up to one year	One year or over	
In NIS millions					
Available stable funding items (AFS)					
Capital:	26,500	-	-	-	26,500
Regulatory capital	23,933	-	-	-	23,933
Other capital instruments	2,567	-	-	-	2,567
Retail deposits by individuals and small businesses:	-	146,607	7,566	2,916	144,782
Stable deposits	-	59,472	2,706	1,413	60,483
Less stable deposits	-	87,135	4,860	1,503	84,299
Wholesale funding:	-	123,571	10,932	11,415	57,327
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	123,571	10,932	11,415	57,327
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,123	1,267	13,081	13,714
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,468	-	-	-
All other liabilities and capital not included in the above categories	-	15,123	1,267	13,081	13,714
Total Available Stable Funding (AFS)	-	-	-	-	242,323
Total high quality liquid assets according to net stable funding ratio (HQLA)					
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	121,441	26,560	150,583	167,999
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	16,988	676	5,339	7,887
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	102,433	23,807	94,804	114,846
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	57,525	477	3,692	5,009
Performing housing loans secured by a mortgage, of which:	-	2,095	2,032	48,435	43,573
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	600	590	14,111	9,767
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	(75)	45	2,005	1,693
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	95	3,363	265	4,550	6,227
Commodities physically traded, including gold	95	-	-	-	95
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	41	41
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	173	173
All other classes of assets not included in the above categories	-	3,363	265	4,550	5,918
Off-balance sheet items	-	105,638	2,223	3,905	5,588
Total required stable funding (RSF)	-	-	-	-	194,396
Net stable funding ratio (NFSR) in percentages	-	-	-	-	124.65

Net Stable Funding Ratio (LIQ2) (continued)

	December 31, 2022				Weighted value
	With no repayment date	Non weighted value according to periods of repayment			
		Up to six months	From six months up to one year	One year or over	
In NIS millions					
Available stable funding items (AFS)					
Capital:	26,888	-	-	-	26,888
Regulatory capital	25,363	-	-	-	25,363
Other capital instruments	1,525	-	-	-	1,525
Retail deposits by individuals and small businesses:	-	134,314	20,525	2,663	145,140
Stable deposits	-	56,506	5,965	1,140	60,487
Less stable deposits	-	77,808	14,560	1,523	84,653
Wholesale funding:	-	129,636	18,295	8,097	58,948
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	129,636	18,295	8,097	58,948
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	14,720	1,262	12,721	13,352
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,073	-	-	-
All other liabilities and capital not included in the above categories	-	14,720	1,262	12,721	13,352
Total Available Stable Funding (AFS)	-	-	-	-	244,328
Total high quality liquid assets according to net stable funding ratio (HQLA)	-	-	-	-	9,099
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	129,490	29,129	152,608	172,623
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	16,470	621	3,469	5,912
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	110,121	26,093	95,700	118,205
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	61,588	445	3,841	5,091
Performing housing loans secured by a mortgage, of which:	-	2,350	2,340	51,423	46,480
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	658	663	14,421	10,034
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	549	75	2,016	2,026
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	93	2,997	429	7,348	9,034
Commodities physically traded, including gold	93	-	-	-	93
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	27	27
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	92	92
All other classes of assets not included in the above categories	-	2,997	429	7,348	8,822
Off-balance sheet items	-	93,005	2,910	3,084	4,950
Total required stable funding (RSF)	-	-	-	-	195,706
Net stable funding ratio (NFSR) in percentages	-	-	-	-	124.84

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

	June 30, 2023	December 31, 2022
	In NIS millions	
Total assets as of	118,338	119,002
Liquidity requirement	9,043	10,233
Of which pledged	23,912	21,660
Of which provided as collateral	976	894
Total available assets	84,407	86,215

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 on 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 on risk", which was published as part of the 2022 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., as stated (pp. 83-89).

Other risks

Information technology risk management

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 89-90).

Data and cyber protection risks

Threats in the cyberspace

In the second quarter of 2023, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

A number of outstanding trends were noted in April–June of 2023:

- As part of the OP–ISRAEL events, many websites experienced DDOS attacks (deprivation of services);
- Continuation of cyber attacks on various organizations in Israel, by Iranian cyber groups, and on Internet websites, by pro–Palestinian groups relating themselves to Anonymous.

For additional details on data and cyber protection risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 90–93).

Environmental and climate risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 93–95).

Legal risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 95–97).

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. Following extension, the indemnity letter and immunity letter are in effect until May 31, 2021.

On the background of the delay in the start of operation of the Correspondence Government Company, that had been established but has not yet begun operations for providing services for banks operating in areas of the Palestinian Authority, the validity of the letters of indemnity and immunity has been extended twice more, until March 31, 2023. At the request of the Bank and MDB, an amended letter of indemnity was received on February 9, 2023, by which, inter alia, the State is committed to indemnify the Bank and MDB in an amount of up to NIS 2 billion, for each indemnifiable event. The commitment of the State to indemnify is subject to limits and terms that the banks have to abide with, similarly to the limits and terms stated in the original letter of indemnity. The power of the letter of indemnity and the letter of immunity was extended until March 31, 2024.

In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 97–102).

Conduct risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 102).

Exposure to cross-border risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 102-104).

Strategic risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 105).

Reputation risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 105-106).

Model risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 106).

Draft of new Proper Conduct of Banking Business Directive regarding "Model Risk Management". The draft was published on June 11, 2023. The draft describes the main aspects of effective model risk management, and also applies to models that include or are based on artificial intelligence, which could expose the banking corporations to new risks or could accentuate existing risks. The draft defines the term "model" and model risks, and prescribes provisions regarding corporate governance, policy and controls, as well as provisions and clarifications regarding the development, application and use of models and their validation. Pursuant to the draft, the directive will go into effect within a year of its publication (other than with regard to exceptions).

Compensation to senior officers

For details on compensation to senior officers, according to the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2022 Annual Report (pp. 333-337).

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 107-114).

Addendums

For details on linkages between the financial statements and regulatory amounts, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (pp. 115–124). For details on Securitization, see the document regarding "Disclosure according to the third pillar of Basel and additional information on risk", which was published as part of the 2022 Annual Report, and is open for review, as stated (p. 125).

August 13, 2023

Shaul Kobrinsky
Chairman of the
Board of Directors

Avi Levy
President &
Chief Executive Officer

Orit Caspi
Executive Vice President
Chief Risk Officer

Glossary

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

Glossary (continued)

Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to-maturity portfolio	Securities for 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 for 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.