Q1 // 2022

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

Link to an accessible report

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

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

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

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	31.03.2022	31.12.2021	30.09.2021	30.06.2021	31.03.2021
			in NIS millions		
Available capital					
Common equity tier 1	23,473	21,839	21,719	21,099	20,333
Common equity tier 1 before applying the effect of the transition	23,067	21,590	21,443	20,752	19,951
Tier 1 capital	23,473	22,017	21,897	21,277	20,511
Tier 1 capital before applying the effect of the transition	23,067	21,590	21,443	20,752	19,951
Total capital	29,605	28,988	28,271	27,673	25,722
Total capital before applying the effect of the transition	29,203	28,413	27,643	26,879	24,853
Weighted average of risk assets					
Total weighted average of risk assets	**222,519**	**215,321**	**211,148**	**205,255**	**199,327**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.55	10.14	10.29	10.28	10.20
Ratio of common equity tier 1 before applying the effect of the transition	10.35	10.01	10.12	10.09	9.99
Tier I capital ratio	10.55	10.23	10.37	10.37	10.29
Tier I capital ratio before applying the effect of the transition	10.35	10.01	10.12	10.09	9.99
Ratio of total capital	13.30	13.46	13.39	13.48	12.90
Ratio of total capital before applying the effect of the transition	13.10	13.17	13.07	13.07	12.44
Ratio of common equity tier 1 required by the Supervisor of Banks	9.17	8.16	8.16	8.16	8.17
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.38	1.98	2.13	2.12	2.03
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**374,412**	**368,120**	**346,679**	**340,170**	**334,052**
Leverage ratio (in %)	6.3	6.0	6.3	6.3	6.1
Leverage ratio before applying the effect of the transition	6.2	5.9	6.2	6.1	5.8
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**72,945**	**67,627**	**66,886**	**66,700**	**66,852**
Total cash outflows	**58,435**	**54,958**	**51,421**	**48,031**	**45,913**
Liquidity coverage ratio (in %)	124.8	123.1	130.1	138.9	145.6
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	**232,304**	**226,437**			
Total required stable funding (RSF)	**182,433**	**178,661**			
Net stable funding ratio (NFSR) in percentages	127.3	126.7			

General background and general reporting principles

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

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

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

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

Main developments in the first three months of 2022

The Corona crisis

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means even up to imposing a lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to actual impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households. Since then, several waves of the outbreak and fading of the pandemic had been identified. The significant vaccination efforts taken since the beginning of 2021, had led since the month of March 2021, to a decline in the rates of morbidity, allowing a gradual removal of most of the restrictions, and in consequence thereof, recovery in economic activity, a decline in the scope of unemployment and the reduction in Government deficit were noted starting from the second quarter of 2021. An additional considerable outbreak of the pandemic occurred at the beginning of the first quarter of 2022, although the scope of restrictions imposed by the Government on the economic activity in Israel was limited. Following the outbreak of the morbidity, a moderate decline has been noticed in the scope of economic activity in Israel during the reporting period. The pandemic faded at the beginning of the second quarter of 2022, and the Government removed the remaining restrictions.

Increase in capital

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

The banking corporation's approach to risk management

For details see in the Risks Report, which was published as part of the 2021 Annual Report (pp. 7-17).
For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2021 Annual Report (pp. 66-68, 113-117).

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks, macro environment risk, business model risks, privacy protection aspects and conduct risks, and environment and climate risk, as the most significant developing leading risks. For additional details see in the Risks Report, which was published as part of the 2021 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 17-19).

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	March 31, 2022	March 31, 2021	December 31, 2021
	in NIS millions		
Credit risk – standardised approach	192,276	185,127	24,035
Counterparty credit risk (standardised approach)	4,293	4,936	537
Credit valuation adjustment (CVA)	1,489	1,656	186
Securitization exposure (standardised approach)	236	232	30
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,088	4,249	636
Total credit risk	203,382	196,200	25,424
Market risk (standardised approach)	3,677	3,738	460
Operational risk	15,460	15,383	1,933
Total	**222,519**	**215,321**	**27,817**

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

For details regarding the required adjustments between the balance sheet in the published financial statements and the regulatory capital components, see the Risks Report, which was published as part of the 2021 Annual Report (pp. 120-129).

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

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

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	March 31,		December 31,
	2022	2021	2021
	in NIS millions		
A. Common Equity Tier 1			
Common equity	23,709	20,398	22,148
Difference between common equity and common equity tier 1	(346)	(259)	(395)
Total common equity tier 1 before supervisory adjustments and deductions	**23,363**	**20,139**	**21,753**
Supervisory adjustments and deductions			
Goodwill and other intangible assets	260	207	195
Supervisory adjustments and other deductions	36	(19)	8
Total supervisory adjustments and deductions before effect of adjustments in respect of the efficiency plan and before effect of adjustment in respect of expected credit losses	**296**	**188**	**203**
Total adjustments in respect to the efficiency plan	271	382	289
Total adjustments in respect of expected credit losses	135	-	-
Total common equity tier 1 after supervisory adjustments and deductions	**23,473**	**20,333**	**21,839**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	-	178	178
Total additional tier 1 capital after deductions	**-**	**178**	**178**
C. Tier 2 capital			
Instruments before deductions	3,496	2,870	4,431
Allowance for credit losses before deductions	2,542	2,254	2,452
Minority interests in a subsidiary	94	87	88
Total tier 2 capital before deductions	6,132	5,211	6,971
Deductions	-	-	-
Total tier 2 capital	**6,132**	**5,211**	**6,971**

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

Capital adequacy

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

Leverage ratio

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

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

	March 31,		December 31,
	2022	2021	2021
	NIS millions		
Total assets according to the consolidated financial statements	340,658	306,142	335,088
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments in respect of derivative financial instruments	(731)	(863)	(190)
Adjustments in respect of SFTs	-	-	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	32,433	26,739	31,110
Other adjustments	2,052	2,034	2,112
Exposure for the purpose of the leverage ratio	**374,412**	**334,052**	**368,120**

Disclosure of the leverage ratio (LR2)

	March 31,		December 31,
	2022	2021	2021
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	331,999	299,155	326,583
Asset amounts deducted in determining Tier 1 capital	(284)	(207)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	**331,715**	**298,948**	**326,388**
Derivative exposures			
Replacement cost associated with all derivatives transactions	2,265	2,108	2,836
Add-on amounts for PFE associated with all derivatives transactions	2,737	2,139	2,507
Gross-up for derivatives collateral provided which were deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-	-
Exempted CCP leg of client-cleared trade exposures	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-	-
Total derivative exposures	**5,002**	**4,247**	**5,343**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	5,262	4,118	5,280
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	**5,262**	**4,118**	**5,280**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	129,861	106,529	125,560
Adjustments for conversion to credit equivalent amounts	(97,428)	(79,790)	(94,450)
Total off-balance sheet items	**32,433**	**26,739**	**31,110**
Capital and total exposures			
Tier 1 capital	23,473[(1)]	20,511[(1)]	22,017[(1)]
Total exposures	374,412	334,052	368,120
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.3	6.1	6.0

Footnote:

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

Credit Risk

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

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

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	March 31, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Of which: Credit Performance Rating[10]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,548	1,495	14	39	1,547	1,246	14	4	(2)	1	29
Mining & Quarrying	371	338	32	1	362	261	32	32	7	-	15
Industry	15,794	15,083	428	283	15,646	9,084	428	192	(15)	20	254
Construction and Real Estate - Construction	43,163[6]	42,148	431	584	43,139[6]	20,541	431	160	(7)	2	364
Construction and Real Estate - Real Estate Activity	14,810	14,330	360	120	14,748	12,472	359	111	(10)	(4)	252
Electricity and Water	5,523	5,484	13	26	4,780	3,048	13	1	-	(1)	73
Commerce	23,262	22,388	490	384	22,905	18,319	490	161	(18)	(5)	353
Hotels, Hotel Services and Food	2,387	2,027	166	194	2,387	2,068	166	17	(8)	-	53
Transportation and Storage	6,956	6,546	315	95	6,758	5,320	315	155	7	-	156
Communication and Computer Services	2,422	2,195	51	176	2,410	1,662	51	42	-	-	38
Financial Services	22,897	22,818	49	30	19,576	12,883	49	-	9	1	127
Other Business Services	8,326	7,723	190	413	8,282	5,864	190	48	(12)	22	170
Public and Community Services	11,019	10,583	323	113	11,012	9,450	323	6	24	(3)	126
Total Commercial	**158,478**	**153,158**	**2,862**	**2,458**	**153,552**	**102,218**	**2,861**	**929**	**(25)**	**33**	**2,010**
Private Individuals - Housing Loans	68,000	63,747	324	3,929	68,000	56,425	323	247	12	6	222
Private Individuals - Other	68,781	66,575	440	1,766	68,773	30,800	441	153	17	20	765
Total Public	**295,259**	**283,480**	**3,626**	**8,153**	**290,325**	**189,443**	**3,625**	**1,329**	**4**	**59**	**2,997**
Banks in Israel	2,772	2,771	-	1	1,661	1,612	-	-	-	-	1
Israeli Government	26,761	26,761	-	-	1,093	1,093	-	-	-	-	-
Total Lending Activity in Israel	**324,792**	**313,012**	**3,626**	**8,154**	**293,079**	**192,148**	**3,625**	**1,329**	**4**	**59**	**2,998**

For footnotes see next page.

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

	March 31, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Of which: Credit Performance Rating[10]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	155	45	-	110	155	141	-	-	-	-	2
Mining & Quarrying	320	320	-	-	-	-	-	-	-	-	-
Industry	5,557	5,349	145	63	5,288	3,381	145	22	-	-	57
Construction and Real Estate - Construction	105	105	-	-	105	80	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	11,845	10,213	738	894	11,614	9,957	734	69	(11)	(1)	92
Electricity and Water	852	852	-	-	512	339	-	-	-	-	7
Commerce	9,880	9,253	375	252	9,855	6,789	375	-	(5)	(1)	65
Hotels, Hotel Services and Food	1,757	505	646	606	1,745	1,638	643	183	(30)	-	12
Transportation and Storage	976	976	-	-	819	802	-	-	(6)	-	14
Communication and Computer Services	307	304	3	-	236	183	3	3	-	-	2
Financial Services	10,886	10,808	-	78	2,317	1,656	-	-	(2)	-	20
Of which: Federal agencies in the U.S. [7]	7,209	7,209	-	-	-	-	-	-	-	-	-
Other Business Services	911	806	104	1	833	624	104	-	-	-	10
Public and Community Services[8]	4,866	4,209	384	273	4,366	4,030	381	-	(5)	-	40
Total Commercial	**48,417**	**43,745**	**2,395**	**2,277**	**37,845**	**29,620**	**2,385**	**277**	**(59)**	**(2)**	**322**
Private Individuals - Housing Loans	339	331	4	4	339	326	4	4	(1)	-	9
Private Individuals - Other	2,037	1,989	8	40	2,036	1,344	8	-	-	-	5
Total Public	**50,793**	**46,065**	**2,407**	**2,321**	**40,220**	**31,290**	**2,397**	**281**	**(60)**	**(2)**	**336**
Banks Outside of Israel	4,674	4,674	-	-	2,888	2,797	-	-	-	-	3
Governments Outside of Israel	7,577	7,577	-	-	2,014	1,483	-	-	(4)	-	23
Total Lending Activity Outside of Israel	**63,044**	**58,316**	**2,407**	**2,321**	**45,122**	**35,570**	**2,397**	**281**	**(64)**	**(2)**	**362**
Total	**387,836**	**371,328**	**6,033**	**10,475**	**338,201**	**227,718**	**6,022**	**1,610**	**(60)**	**57**	**3,360**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 227,718 million, NIS 41,166 million, NIS 1,156 million, NIS 5,734 million, NIS 112,062 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is non-accruing, substandard or under special mention.

(6) Including acquisition groups in an amount of NIS 417 million.

(7) Including mortgage backed securities in the amount of NIS 6,981 million, issued by GNMA and in the amount of NIS 228 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,858 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 266 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)

	March 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,413	1,350	20	43	1,405	1,119	20	10	3	2	20
Mining & Quarrying	639	600	38	1	639	434	38	38	1	-	6
Industry	15,103	13,839	778	486	14,967	9,067	778	267	(1)	11	331
Construction and Real Estate - Construction	34,299[6]	33,020	493	786	34,263[6]	17,392	493	151	(35)	19	290
Construction and Real Estate - Real Estate Activity	13,001	12,377	325	299	12,921	11,572	320	140	(7)	-	217
Electricity and Water	4,769	4,718	35	16	4,237	2,958	35	2	(3)	1	22
Commerce	22,442	20,938	664	840	22,271	17,532	659	199	(22)	1	536
Hotels, Hotel Services and Food	2,175	1,617	396	162	2,175	1,863	396	119	(11)	1	91
Transportation and Storage	5,842	5,208	469	165	5,713	4,932	469	193	(1)	3	172
Communication and Computer Services	2,247	2,050	48	149	2,204	1,570	48	44	(44)	(16)	81
Financial Services	18,455	17,594	349	512	15,476	10,276	349	298	4	-	101
Other Business Services	7,984	7,030	280	674	7,952	5,546	280	97	(10)	4	221
Public and Community Services	10,002	9,750	102	150	9,990	8,928	102	25	(9)	-	44
Total Commercial	**138,371**	**130,091**	**3,997**	**4,283**	**134,213**	**93,189**	**3,987**	**1,583**	**(135)**	**26**	**2,132**
Private Individuals - Housing Loans	50,775	48,876	294	1,605	50,775	44,147	294	2	(2)	2	251
Private Individuals - Other	65,933	62,615	620	2,698	65,906	30,705	620	258	(57)	3	912
Total Public	**255,079**	**241,582**	**4,911**	**8,586**	**250,894**	**168,041**	**4,901**	**1,843**	**(194)**	**31**	**3,295**
Banks in Israel	2,036	2,036	-	-	1,004	894	-	-	-	-	-
Israeli Government	32,214	32,214	-	-	2,700	1,764	-	-	-	-	-
Total Lending Activity in Israel	**289,328**	**275,831**	**4,911**	**8,586**	**254,598**	**170,699**	**4,901**	**1,843**	**(194)**	**31**	**3,295**

For footnotes see p. 15.

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

	March 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	258	52	-	206	258	189	-	-	-	-	2
Mining & Quarrying	283	283	-	-	10	10	-	-	-	-	-
Industry	6,296	5,636	295	365	5,852	3,455	211	23	(7)	-	58
Construction and Real Estate - Construction	190	188	-	2	190	101	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	11,849	9,061	1,644	1,144	11,549	10,468	1,577	234	51	22	284
Electricity and Water	472	472	-	-	164	19	-	-	-	-	-
Commerce	7,753	6,997	178	578	7,674	4,719	178	-	(5)	(3)	49
Hotels, Hotel Services and Food	1,791	383	1,375	33	1,763	1,722	1,363	346	(11)	-	94
Transportation and Storage	843	843	-	-	652	639	-	-	(2)	-	7
Communication and Computer Services	199	193	3	3	166	113	3	3	-	-	1
Financial Services	11,658	11,592	51	15	2,659	1,409	51	14	1	-	14
Of which: Federal agencies in the U.S. [7]	7,815	7,815	-	-	-	-	-	-	-	-	-
Other Business Services	994	875	3	116	856	588	3	-	(1)	-	4
Public and Community Services[8]	4,902	3,955	394	553	4,279	3,958	387	-	18	-	50
Total Commercial	**47,488**	**40,530**	**3,943**	**3,015**	**36,072**	**27,390**	**3,773**	**620**	**44**	**19**	**564**

For footnotes see next page.

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

	March 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity Outside of Israel											
Private Individuals - Housing Loans	218	185	5	28	218	200	5	-	-	-	3
Private Individuals - Other	1,872	1,791	47	34	1,870	1,270	47	-	1	-	13
Total Public	**49,578**	**42,506**	**3,995**	**3,077**	**38,160**	**28,860**	**3,825**	**620**	**45**	**19**	**580**
Banks Outside of Israel	4,379	4,379	-	-	3,117	3,063	-	-	-	-	-
Governments Outside of Israel	4,451	4,451	-	-	1,756	1,756	-	-	2	-	17
Total Lending Activity Outside of Israel	**58,408**	**51,336**	**3,995**	**3,077**	**43,033**	**33,679**	**3,825**	**620**	**47**	**19**	**597**
Total	**347,736**	**327,167**	**8,906**	**11,663**	**297,631**	**204,378**	**8,726**	**2,463**	**(147)**	**50**	**3,892**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 204,378 million, NIS 42,793 million, NIS 1,135 million, NIS 5,099 million, NIS 94,331 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 206 million.

(7) Including mortgage backed securities in the amount of NIS 7,340 million, issued by GNMA and in the amount of NIS 474 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 6,867 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 230 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(12) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

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

	December 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,534	1,446	19	69	1,524	1,236	19	8	2	1	19
Mining & Quarrying	380	347	32	1	369	220	32	31	2	–	7
Industry	15,204	14,313	526	365	15,079	9,010	526	217	(18)	36	282
Construction and Real Estate – Construction	43,155[6]	42,411	639	105	43,135[6]	20,147	639	174	43	35	351
Construction and Real Estate – Real Estate Activity	14,237	13,853	356	28	14,186	12,175	355	109	(15)	(5)	213
Electricity and Water	5,241	5,203	13	25	4,546	2,935	13	2	(3)	3	21
Commerce	22,892	21,938	532	422	22,451	18,014	532	202	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	2,305	1,976	291	77	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	6,118	5,073	382	180	(19)	18	139
Communication and Computer Services	2,400	2,311	52	37	2,366	1,657	52	45	(58)	(27)	77
Financial Services	22,375	22,294	54	27	19,613	13,924	54	–	(12)	(6)	91
Other Business Services	8,228	7,563	255	410	8,180	5,823	255	120	(67)	6	163
Public and Community Services	11,004	10,842	62	100	10,998	9,313	62	22	(21)	(2)	35
Total Commercial	**155,314**	**150,356**	**3,213**	**1,745**	**150,870**	**101,503**	**3,212**	**1,187**	**(407)**	**7**	**1,870**
Private Individuals - Housing Loans	63,655	59,955	275	3,425	63,655	53,650	275	–	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	67,429	30,200	524	230	(169)	38	765
Total Public	**286,406**	**275,650**	**4,012**	**6,744**	**281,954**	**185,353**	**4,011**	**1,417**	**(570)**	**51**	**2,890**
Banks in Israel	2,549	2,549	–	–	1,348	1,300	–	–	–	–	–
Israeli Government	28,893	28,893	–	–	1,659	1,131	–	–	–	–	–
Total Lending Activity in Israel	**317,848**	**307,092**	**4,012**	**6,744**	**284,961**	**187,784**	**4,011**	**1,417**	**(570)**	**51**	**2,890**

For footnotes see p. 18.

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

	December 31, 2021										
	Total Credit Risk(1)				Debts(2) and off-balance sheet Credit Risk (excluding Derivatives)(3)						
									Credit Losses(4)		
	Total(9)	Credit Performance Rating(10)	Problematic(5)	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts(2)(11)	Problematic(5)	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	175	49	–	126	175	162	–	–	(1)	–	2
Mining & Quarrying	332	332	–	–	–	–	–	–	–	–	–
Industry	5,437	5,190	72	175	4,984	3,055	72	60	(45)	–	55
Construction and Real Estate – Construction	142	142	–	–	142	123	–	–	(29)	(29)	1
Construction and Real Estate – Real Estate Activity	11,811	10,065	790	956	11,552	10,324	751	70	(52)	(2)	158
Electricity and Water	892	892	–	–	540	351	–	–	1	–	1
Commerce	9,403	8,843	435	125	9,280	6,549	435	–	40	27	66
Hotels, Hotel Services and Food	1,752	518	981	253	1,738	1,671	981	290	(49)	–	50
Transportation and Storage	976	976	–	–	814	793	–	–	(2)	–	6
Communication and Computer Services	354	351	3	–	218	154	3	3	9	9	1
Financial Services	10,706	10,600	41	65	2,302	1,607	41	13	(4)	–	8
Of which: Federal agencies in the U.S.(7)	7,031	7,031	–	–	–	–	–	–	–	–	–
Other Business Services	901	825	74	2	821	538	74	–	–	–	5
Public and Community Services(8)	4,772	4,163	408	201	4,225	3,889	406	–	5	–	35
Total Commercial	**47,653**	**42,946**	**2,804**	**1,903**	**36,791**	**29,216**	**2,763**	**436**	**(127)**	**5**	**388**

For footnotes see next page.

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

	December 31, 2021										
	Total Credit Risk[1]				Debts[2]and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Private Individuals - Housing Loans	299	292	5	2	299	294	5	-	-	-	3
Private Individuals - Other	2,059	2,018	38	3	2,058	1,333	38	-	(3)	-	8
Total Public	**50,011**	**45,256**	**2,847**	**1,908**	**39,148**	**30,843**	**2,806**	**436**	**(130)**	**5**	**399**
Banks Outside of Israel	4,442	4,442	-	-	2,495	2,412	-	-	-	-	-
Governments Outside of Israel	6,420	6,420	-	-	1,533	1,533	-	-	7	-	22
Total Lending Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**43,176**	**34,788**	**2,806**	**436**	**(123)**	**5**	**421**
Total	**378,721**	**363,210**	**6,859**	**8,652**	**328,137**	**222,572**	**6,817**	**1,853**	**(693)**	**56**	**3,311**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 222,572 million, NIS 42,251 million, NIS 1,207 million, NIS 5,524 million, NIS 107,167 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 313 million.

(7) Including mortgage backed securities in the amount of NIS 6,673 million, issued by GNMA and in the amount of NIS 358 million, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

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

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 252 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(12) Reclassified - following improvement of data.

Credit Exposure to Foreign Financial Institutions

About 95% of the exposure as of March 31, 2022, is to financial institutions rated "A-"rating or higher, compared with about 91% as of December 31, 2021. For additional details, see the Report for the first quarter of 2022.

Drafts and Instructions published during the first quarter of 2022

Update of Proper Conduct of Banking business Directive No. 451 – Procedures for the granting of housing loans. An update of the Directive was published on January 31, 2022, in which it is stated that banks are required to: (1) make available to the public an online calculator enabling simulations of different mixes of loans for different time ranges, in order to obtain an assessment of the effect of changes in the mix on the monthly repayment amount and the total amount payable until the end of the loan period; (2) a banking corporation will provide the customer with an approval in principle within five business days from date of submission of the request for a loan, as stated. In exceptional cases of loans the characteristics of which are to be defined in advance in the credit policy of the banking corporation, the approval in principle should be given within seven business days, and a notice to the customer should be delivered regarding the reason for the extra time required to process his request for the loan.
The update states the information that a banking corporation is required to present on the Internet Application offered to its customers. It is further stated that, at the request of the customer, the required information would be delivered to the customer in writing up to twice in each calendar year, with no commission being charged for this service. Furthermore, rules were defined for the computation of the "forecasted total interest". In this framework, formulas were determined for this calculation as well as a Table showing the reference of the classes of loans to the relating forecasts.
Addendum No. 6 to the Directive details the data that a bank is required to present in the approval in principle document. Required to be presented are three uniform loan types plus one offered loan track. Also required to be presented are details of the forecasted total interest and the highest amount of the monthly repayments expected according to the forecast. The above updates take effect on August 31, 2022.
Sale of housing loans and cooperation regarding extension of housing loans. The Supervisor of Banks published a draft circular on May 18, 2022, updating Proper Conduct of Banking Business Directive No. 329B in the matter of sale of housing loans and cooperation in regarding extension of housing loans. This draft had already been published in 2017, but had not become a binding Directive. Based on conclusions drawn from the global financial crisis, the Directive regulates principles for transacting such operations intended, inter alia, to protect the rights of borrowers included in the sold loan portfolios, to prevent situations of negative selection affecting the quality of the credit portfolio of the bank and to avoid development of moral risk to the acquiring entity. The Directive states limitations, such as: the volume of sale transactions for housing loans – the amount of housing loans to be sold, together with the amount of housing loans under responsibility of the institutional body in a syndication transaction, to which the bank provides a material service, shall not exceed 10% of the balance of the housing loan portfolio. Notwithstanding the above, a possibility exists for deviation from the said maximum amount subject to an examination, and a decision of the board of directors of the bank and to approval by the Supervisor of Banks.
Credit risk applying to the construction and real estate sector. On March 22, 2022, the Supervisor of Banks published a letter in the matter of: increase in credit risk applying to the construction and real estate sector, together with a draft update to Proper Conduct of Banking Business Directive No. 203. In continuation of published prior letters, the Supervisor reviews the growth in volume of credit extended to this sector by the banking system, and determines a number of restrictions intended to moderate the future growth in credit and reduce risk: (1) To the list of debts averaged for risk at 150%, are added loans intended for the purchase of land for development and construction purposes, at a rate exceeding 75% of the value of the acquired property (LTV), except for loans for the purchase of agricultural land, which has no zoning outlook and has no intention of submission of an application for change in designation (an effective date has not been fixed). (2) Delivery of representative samples for underwriting procedures and credit classification, with a view of assisting underwriting and classification processes. (3) Future requirements from banks to expand reporting to the Supervisor of Banks with respect to the construction and real estate sector.

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

	Gross balances			
	Non-accruing debts or in arrears for 90 days or over	Other	Allowances for credit losses or impairment in value	Net balance
	March 31, 2022			
	in NIS millions			
Debts, excluding bonds	1,635	221,806	2,888	220,553
Bonds	1	38,459	-	38,460
Off-balance sheet exposure	63	124,618	451	124,230
Total	**1,699**	**384,883**	**3,339**	**383,243**

	Gross balances			
	Impaired or in arrears of 90 days or over	Other	Allowances for credit losses or impairment in value	Net balance
	in NIS millions			
	March 31, 2021			
Debts, excluding bonds	4,316	197,003	3,609	197,710
Bonds	89	40,143	-	40,232
Off-balance sheet exposure	54	102,524	266	102,312
Total	**4,459**	**339,670**	**3,875**	**340,254**
	December 31, 2021			
Debts, excluding bonds	3,149	215,166	3,040	215,275
Bonds	1	40,135	-	40,136
Off-balance sheet exposure	55	121,035	249	120,841
Total	**3,205**	**376,336**	**3,289**	**376,252**

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

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

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

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	March 31, 2022								
Debts, excluding bonds	179,977	40,576	15,142	34,019	8,585	6,557	6,557	-	-
Bonds	38,460	-	-	-	-	-	-	-	-
Total	**218,437**	**40,576**	**15,142**	**34,019**	**8,585**	**6,557**	**6,557**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	1,192	529	203	152	28	377	175		
	March 31, 2021								
Debts, excluding bonds	163,660	34,050	16,143	25,506	7,599	8,544	8,544	-	-
Bonds	40,232	-	-	-	-	-	-	-	-
Total	**203,892**	**34,050**	**16,143**	**25,506**	**7,599**	**8,544**	**8,544**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over(1)	1,050	2,084	1,075	331	75	1,753	1,000		
	December 31, 2021								
Debts, excluding bonds	175,202	40,073	16,129	33,279	9,335	6,794	6,794	-	-
Bonds	40,136	-	-	-	-	-	-	-	-
Total	**215,338**	**40,073**	**16,129**	**33,279**	**9,335**	**6,794**	**6,794**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over(1)	1,218	1,478	794	143	48	1,335	746		

Note:
(1) Not including an accumulating impaired debt in the amount of NIS 621 million at March 31,2021 and NIS 404 million at December 31,2021.

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								
	March 31, 2022								
Sovereigns, their central banks and national monetary authority	91,831	15	–	–	–	–	166	110	92,122
Public sector entities (PSE) which are not central governments	1,399	8,077	–	1,399	–	–	84	–	10,959
Banks (including multilateral development banks)	–	8,679	–	76	–	–	35	–	8,790
Securities corporations	–	593	–	–	–	–	–	–	593
Corporations	–	10,681	–	952	–	–	103,722	224	115,579
Retail exposures for private individuals	–	–	–	–	–	32,385	125	–	32,510
Loans to small businesses	–	–	–	–	–	14,098	11	–	14,109
Secured by residential property	–	–	14,820	18,533	15,223	8,212	1,011	–	57,799
Secured by commercial real estate	–	–	–	–	–	–	4,379	–	4,379
Loans in arrears	–	–	–	–	–	–	522	1,041	1,563
Other assets	2,334	84	–	–	–	–	6,548	1,442	10,408
Of which: in respect of shares	–	–	–	–	–	–	672	1,083	1,755
Total	**95,564**	**28,129**	**14,820**	**20,960**	**15,223**	**54,695**	**116,603**	**2,817**	**348,811**
	March 31, 2021								
Sovereigns, their central banks and national monetary authority	84,080	28	–	–	–	–	157	5	84,270
Public sector entities (PSE) which are not central governments	1,752	7,415	–	1,473	–	–	30	–	10,670
Banks (including multilateral development banks)	–	10,833	–	107	–	–	38	–	10,978
Corporations	–	8,500	–	683	–	–	93,579	170	102,932
Retail exposures for private individuals	–	–	–	–	–	28,818	145	–	28,963
Loans to small businesses	–	–	–	–	–	12,899	14	–	12,913
Secured by residential property	–	–	12,889	14,211	8,415	8,816	657	–	44,988
Secured by commercial real estate	–	–	–	–	–	–	4,356	–	4,356
Loans in arrears	–	–	–	–	–	–	525	1,394	1,919
Other assets	2,526	47	–	–	–	–	5,799	1,298	9,670
Of which: in respect of shares	–	–	–	–	–	–	504	909	1,413
Total	**88,358**	**26,823**	**12,889**	**16,474**	**8,415**	**50,533**	**105,300**	**2,867**	**311,659**
	December 31, 2021								
Sovereigns, their central banks and national monetary authority	92,639	63	–	–	–	–	167	–	92,869
Public sector entities (PSE) which are not central governments	1,447	8,362	–	1,383	–	–	79	–	11,271
Banks (including multilateral development banks)	–	7,842	–	113	–	–	31	–	7,986
Securities corporations	–	209	–	–	–	–	–	–	209
Corporations	–	11,655	–	860	–	–	99,371	299	112,185
Retail exposures for private individuals	–	–	–	–	–	31,335	137	–	31,472
Loans to small businesses	–	–	–	–	–	13,832	25	–	13,857
Secured by residential property	–	–	14,455	17,631	13,396	8,398	887	–	54,767
Secured by commercial real estate	–	–	–	–	–	–	4,317	–	4,317
Loans in arrears	–	–	–	–	–	–	798	1,104	1,902
Other assets	2,225	34	–	–	–	–	6,313	1,333	9,905
Of which: in respect of shares	–	–	–	–	–	–	632	990	1,622
Total	**96,311**	**28,165**	**14,455**	**19,987**	**13,396**	**53,565**	**112,125**	**2,736**	**340,740**

Footnote:

(1) Improvement of the data.

Counterparty credit risk

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

Instructions published during the first quarter of 2022

Directive regarding the standardized approach for measuring counterparty credit risk exposures. In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardized approach for measuring counterparty credit risk exposures SA-CCR". On December 1, 2021, the Supervisor of Banks published the Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk in accordance with the SA-CCR. The applicable date as from July 1, 2022. The said approach replaces the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the CEM approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part as a derivative of accepted netting agreements (such as CSA).
The Bank estimates that the implementation of the new directive will reduce the Common Equity Tier 1 ratio by a rate of 0.07% - 0.12% in terms of March 31, 2022.

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

	Replacement cost	Potential future exposure	EAD after CRM	RWA
		in NIS millions		
		March 31, 2022		
Current exposure method	2,117	2,141	3,742	1,739
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	3,321	2,164
Total	**2,117**	**2,141**	**7,063**	**3,903**
		March 31, 2021		
Current exposure method	1,975	1,709	3,223	2,148
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,011	877
Total	**1,975**	**1,709**	**5,234**	**3,025**
		December 31, 2021		
Current exposure method	2,770	2,074	4,187	2,185
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	3,570	2,362
Total	**2,770**	**2,074**	**7,757**	**4,547**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	March 31, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	**3,691**	**1,489**
	March 31, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	**3,216**	**1,491**
	December 31, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	**4,161**	**1,656**

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

Market Risk

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

Quantitative disclosure

(1) Limitations set by the Board of Directors

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

(2) Interest Risk Exposure

General

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

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

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

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

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information regarding exposure to market risk" below.
The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

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

Assets	Affect of 100 BP as of March 31, 2022	Affect of 100 BP as of December 31, 2021	Liabilities	Affect of 100 BP as of March 31, 2022	Affect of 100 BP as of December 31, 2021
			in NIS millions		
Credit	2,748	2,778	Credit	934	971
Available-for-sale securities portfolio	1,118	1,341	Available-for-sale securities portfolio	453	502
Trading securities portfolio	(15)	7	Trading securities portfolio	(84)	137
Held-to-maturity securities portfolio	447	479	Held-to-maturity securities portfolio	1,949	2,090
Off balance-sheet	-	-	Off balance-sheet	299	320
Other	35	32	Other	-	-
Total	4,334	4,637	Total	3,551	4,019

(3) Additional information – models and risk indices

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

Principal indices for management

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

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

	For the period ended on:			
	March 31, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(783)	(783)	(617)	(742)
Limitation set by the Board of Directors	(1,529)	-	(1,520)	-
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

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

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

	For the period ended on:			
	March 31, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(565)	(605)	(624)	(624)
Limitation set by the Board of Directors	(1,529)	-	(1,520)	-

Indices and additional models

The Value at Risk (VaR)

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

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

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

	First quarter		End of year	
	2022		2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	6.3	10.6	10.7	16.3
Limitation set by the Board of Directors	30		30	

Footnote:
The VaR calculated for 10 business days and profitability of 99%.

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

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

(4) Inflation and exchange rate exposure

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

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements as of December 31, 2020. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).

Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB New York has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.
The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.
The exposure is measured separately for each material currency.

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

		First Quarter 2022				2021		
				Position range				
Segment	Limitation	Year end	From	To	Average	Year end	From	To
CPI linked	50%-(50%)	24.2%	19.2%	24.2%	21.4%	10.9%	1.7%	16.9%
Foreign currency	15% - 30%	17.0%	17.0%	19.1%	18.2%	18.0%	17.1%	19.1%

Footnote:

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

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.
In the Bank's opinion, the exposure to the various linkage bases at the end of the period characterizes the exposure during the period.

(5) Management of positions in the trading portfolio

Trading portfolios. The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" in government bonds in foreign currency and in derivatives. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

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

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

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

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

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

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

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

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

	March 31, 2022	December 31, 2021
	in NIS millions	
Not for trading derivatives	55,134	52,708
Of which: hedging derivatives	4,634	4,876
Trading derivatives	340,291	294,872
Total	**395,425**	**347,580**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2020 (pp. 143-144, 238-244).

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

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

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

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

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options 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 first quarter of 2022.

Market risk according to the standardized approach (MR1)

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

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

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

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

	Capital allocation as of	
	March 31, 2022	December 31, 2021
	In NIS millions	
Interest rate risk*	423	409
Foreign exchange rate risk	27	14
Share risk		
Option risk	9	7
Total for the banking group	**460**	**430**
Allocation in risk asset terms	**3,677**	**3,738**

* Including the specific risk in the amount of NIS 2.6 million and NIS 2.3 million in March 2022 and December 2021 respectively.

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

Interest rate risk in the banking book (IRRBB)

For details regarding behavioral economic models integrated in risk management and regarding behavioral assumptions applied in the assessment of interest risks, see the document regarding ”Disclosure according to the third pillar of Basel and additional information regarding risk”, which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 74-75).
For quantitative information regarding interest risk in the banking book and the trading book, see the document regarding ”Disclosure according to the third pillar of Basel and additional information regarding risk”, which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 75-76).

Shares Risk

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

Liquidity risk

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

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	March 31, 2022		December 31, 2021	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		72,949		67,627
Cash outflows				
Retail deposits from individuals and small businesses, of which:	145,932	10,502	142,470	10,132
Stable deposits	51,955	2,563	50,859	2,508
Less stable deposits	70,257	7,228	66,926	6,883
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	23,720	712	24,685	741
Unsecured wholesale financing, of which:	101,896	60,575	97,818	57,499
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations			1	1
Deposits not for operational purposes (all counterparties)	100,453	60,396	96,421	57,441
Unsecured debts	1,443	179	1,395	58
Secured wholesale financing		24		77
Additional liquidity requirements, of which:	85,088	20,558	83,120	19,186
Cash outflows in respect of exposure to derivatives and other collateral requirements	13,924	13,344	12,438	11,524
Cash outflows in respect of loss of financing of debt products				
Credit and liquidity facilities	71,164	7,214	70,682	7,662
Other contractual financing commitments	32,116	851	30,889	822
Other conditional financing commitments	2,699	94	2,659	91
Total cash outflows		**92,605**		**87,808**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	1,503	1,503	1,422	1,422
Cash inflows from regularly performing exposure	26,274	19,506	23,567	19,489
Other cash inflows	14,890	13,160	13,696	11,939
Total cash inflows	**42,667**	**34,169**	**38,685**	**32,850**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**72,945**		**67,627**
Total net cash outflows		**58,435**		**54,958**
Liquidity Coverage Ratio		124.8%		123.1%

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

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

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

For details regarding the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 82-83).

The liquidity coverage ratio of the Discount Group

As of March 31, 2022, the ratio amounted to 123%, compared to 127.5% on December 31, 2021. The average liquidity ratio in the first quarter of 2022 amounted to 124.8% as compared with an average ratio of 123.1% in the fourth quarter of 2021.
The liquidity ratio has risen despite the growth in the credit portfolio as a result of the growth in retail and wholesale deposits, the raising of debt funds made at the end of 2021, and the issue of capital at the end of the current quarter.
The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

	Assets included	For the period ended March 31, 2022	December 31, 2021
		in NIS millions	
Buffer 1	Cash	47,266	39,970
	Israel Bonds/Short-term loans (MAKAM)	13,408	15,998
	Foreign bonds	11,136	9,911
Buffer 2	Sovereigns bonds	178	341
	Mortgage bonds issued by public corporations	111	381
	Corporation Bonds AA	609	772
Buffer 2 b	Corporation Bonds A	235	253
Total		**72,945**	**67,627**

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

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

	For the period ended	
	March 31, 2022	December 31, 2021
	In %	
Discount Group	124.83%	123.05%
The Bank	135.60%	131.88%
IDB New York	115.07%	110.57%
Mercantile Discount Bank	137.94%	128.56%
Total	**124.8%**	**123.1%**

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

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of March 31, 2022, the coverage ratio in shekels was 116.7% compared with 124.6% at December 31, 2021. The decline in the ratio stemmed mostly from the effect of shekel/dollar swap transactions.
The liquidity coverage ratio as of March 31, 2022, respecting the total of foreign currencies, amounted to 151.4% compared to 138.7% on December 31, 2021. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.
The liquidity coverage ratio with respect to US dollars as of March 31, 2022 was 133.3% as compared with 123.5% on December 31, 2021. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.
In Euros, the liquidity coverage ratio at March 31, 2022, was 171.3% compared with 150.4% at December 31, 2021. The rise in the ratio stemmed from a decrease in the net outflow caused by dollar/Euro swap transactions.
The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Net Stable Funding Ratio (LIQ2)

	March 31, 2022				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	26,824	-	-	-	26,824
Regulatory capital	23,498				23,498
Other capital instruments	3,326				3,326
Retail deposits by individuals and small businesses:	-	143,343	6,897	2,664	140,993
Stable deposits		59,477	2,799	1,187	60,349
Less stable deposits		83,866	4,098	1,477	80,644
Wholesale funding:	-	112,377	7,449	10,691	50,973
Deposits held for operational requirements		-	-	-	-
Other wholesale funding		112,377	7,449	10,691	50,973
Liabilities with interdependent matching assets					
Other liabilities:		12,334	2,271	12,379	13,514
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio		1,429			
All other liabilities and capital not included in the above categories		12,334	2,271	12,379	13,514
Total Available Stable Funding (AFS)					**232,304**
Total high quality liquid assets according to net stable funding ratio (HQLA)					**12,842**
Deposits held with other financial institutions for operational requirements					
Performing loans and securities:	-	114,853	24,337	141,466	157,044
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		15,876	523	4,683	7,022
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:		96,996	21,833	89,668	107,755
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		55,484	467	3,530	4,759
Performing housing loans secured by a mortgage, of which:		1,899	1,949	45,336	40,686
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		563	584	13,660	9,453
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities		82	32	1,779	1,581
Assets with interdependent matching liabilities					
Other assets:	92	3,461	396	5,537	7,171
Commodities physically traded, including gold	92				92
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		-	-	3	3
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral		-	-	101	101
All other classes of assets not included in the above categories		3,461	396	5,537	6,975
Off-balance sheet items		102,688	2,135	2,697	5,376
Total required stable funding (RSF)					**182,433**
Net stable funding ratio (NFSR) in percentages					**127.34**

Footnote:

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

Net Stable Funding Ratio (LIQ2) (continued)

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

Financing risk - available and unrestricted assets

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

Available and unrestricted assets

	March 31, 2022	December 31, 2021
	In NIS millions	
Total assets as of	112,304	111,551
Liquidity requirement	10,856	10,399
Of which pledged	19,073	20,607
Of which provided as collateral	1,172	1,181
Total available assets	**81,204**	**79,364**

Additional risks

Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events
The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

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

Other risks

Information technology risk management

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

Data and cyber protection risks

Threats in the cyberspace

In the first quarter of 2022, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.
A number of outstanding trends were noted in the first three months of 2022:

- The Iranian Government acted through subcontractors, with the aim of impairing the Israeli economy. This by way of ransom ware attacks having a double target: financial component – the payment of ransom to the attacking agent, and a national component – embarrassment of the victim on the social networks and on the different media channels (thus embarrassing the State of Israel);
- Complexity of the manner of inserting the ransom ware – the utilization of unidentified deficiencies existing in complex technological systems, for which the manufacturers have not yet issued data protection updates, with the aim of inserting a ransom ware virus into the systems of a large number of organizations at the same time. This trend may affect the Group, both by damaging one or more material suppliers and by damaging one of the systems in use by the Group;
- Increased attempts to steal identifications by way of setting up websites pretending to be the website of the Bank.

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

Environmental risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 98-100).
On February 3, 2021, a questionnaire was sent to the banks with respect to environmental risks, the answers to it will serve as a basis for the continuation of discussions with risk managers at the banking corporations. The Bank has responded to the Supervisor of Banks, and the results of the questionnaire would comprise a basis for discussions with the Supervisor towards the possible future regulation in the matter. The regulation to be formed is expected to be based upon globally accepted regulation principles, while aspiring to achieve optimal match of the international regulation and expectations to the local environment.
The Chapter regarding environmental risks, being part of the annual review of the banking system in Israel, conducted by the Bank of Israel, was published on May 26, 2021. The Chapter extensively describes the development of monitoring environmental risks existing in the Israeli banking system, as well as the regulatory anticipation regarding the manner of reporting five major issues: corporate governance, strategy, risk management, scenario analysis and stress tests and disclosure.
The Bank is studying the subject in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

Legal risks

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

Compliance risks

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. Validity of the letters of indemnification and immunity has been extended from time to time. Validity of the letters of indemnification and immunity were extended in July 2021 until July 15, 2022. This on the background of the delay in the start of operations of the Government Correspondence Company. On May 11, 2022, an update was received from the Ministry of Finance that they intend to extend the indemnity letter until December 31, 2022.

For additional details regarding Discount Group's activities with banks acting in the Palestinian Authority, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2021 Annual Report, and is open for review, as stated (pp. 103-106).

Draft update of Proper Conduct of Banking Business Directive No.411 regarding the management of prohibition of money laundering and the finance of terror risks in the field of virtual currencies. Within the framework of the draft published on December 29, 2021, it is proposed to anchor the requirements from the banking system in prohibition of money laundering and the finance of terror risks involved in providing payment services involving activity in virtual currencies. It is noted that at this time, when regulation and supervision over virtual currency service providers is still in its infancy, the Supervisor sees payment services provided by banking corporations in virtual currency activity as high risk activities in terms of prohibition of money laundering and the finance of terror, and therefore increased monitoring and control measures should be applied. Among other things, it was determined that the banking corporation must perform a risk assessment regarding remittances the origin of or their purpose is related to virtual currencies, and on the basis of the risk assessment establish policies and procedures (which will relate, at the very least, to the manner of activity with virtual currency service providers; the manner of activity with customers who have carried out activity in a virtual currency not through a service provider, etc.). This requirement complies with the international standard set by the FATF for this matter. It was further determined that a corporation will not refuse to provide payment services in connection with activity in virtual currencies merely because it is associated with virtual currencies, insofar as the service provider in virtual currencies which is a party to the transaction has received a license to provide the service in Israel. A provision has also been issued prohibiting the provision of payment services in connection with activity in virtual currency in certain cases and provisions regarding the requirement of references for tax payments by law. According to the draft, the amendment to the Directive in these respects is expected to enter into force in November 2022.

Conduct risk

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

Exposure to cross-border risks

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

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

Strategic risk

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

Reputation risk

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

Model risk

Model risk is the risk that decision makers would rely on results of models based on incorrect assumptions or on financial data that is incorrect or inappropriate or not suitable for the business and economic environment, etc. Furthermore, sometimes the results of the model are too broadly interpreted. Such phenomenon may have implications on the profitability of the Bank and the Group, on the appropriateness of the financial statements and reliability of the data presented therein, as well as adversely affect reputation and more.
In view of the growing use of models made by the Bank, and whereas model development processes and the use made of them are complex processes that are prone to errors, management of the risk is conducted in accordance with the group policy, with designated methodology and within the framework of the risk appetite determined by the Board of Directors.
The policy defines the framework of governance, the duties and authority of the functions involved in the management of the risk, separation of duties and interface between the different factors, a monitoring and reporting framework and additional discerning points regarding aspects of model development processes, such as: aspects of privacy protection and fairness, integration of indicators and triggers for the identification of crisis situations. The risk management processes integrated in the Bank and in the Group, allow evaluation of the profile of the model risk of the Bank and Group companies.
Responsibility for the current management of the model risk lies with each member of Management in respect of the models relevant to his field of operation, and responsibility for the management of model risks and validation of models is managed within the framework of a designated unit for the management of model risks operating in the second line.
Validation products are discussed by the Validation Committee (a Management committee), headed by the Chief Risk Officer, which is responsible for approval of models exposing the Bank to risk.
As part of the examination of the impact of the Corona crisis on models, the Bank and the Group had conducted an in-depth process for the identification of the effects of the crisis on the different models, including intensification of the process regarding material models and modifications made within the framework of risk management, as part of the process of drawing conclusions made on the background of the crisis.

Remuneration to senior officers

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

Addendums

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

May 22, 2022	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Amir Rozin Deputy Head of the Risk Management Division, Acting Head of Division

Glossary

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

Glossary (continued)

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