2022

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

Accessible report

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

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The meeting of the Board of Directors held on March 12, 2023, in the framework of approval of the Bank's 2022 annual report, decided also 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.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021
	in NIS millions				
Available capital					
Common equity tier 1	25,353	24,653	23,939	23,473	21,839
Common equity tier 1 before applying the effect of the transition	25,012	24,294	23,557	23,067	21,590
Tier 1 capital	25,353	24,653	23,939	23,473	22,017
Tier 1 capital before applying the effect of the transition	25,012	24,294	23,557	23,067	21,590
Total capital	32,231	31,013	30,214	29,605	28,988
Total capital before applying the effect of the transition	31,890	30,669	29,836	29,203	28,413
Weighted average of risk assets					
Total weighted average of risk assets	**247,447**	**242,446**	**235,535**	**222,519**	**215,321**
Ratio of capital adequacy according to instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.25	10.17	10.16	10.55	10.14
Ratio of common equity tier 1 before applying the effect of the transition	10.07	9.97	9.99	10.35	10.01
Tier I capital ratio	10.25	10.17	10.16	10.55	10.23
Tier I capital ratio before applying the effect of the transition	10.07	9.97	9.99	10.35	10.01
Ratio of total capital	13.03	12.79	12.83	13.30	13.46
Ratio of total capital before applying the effect of the transition	12.84	12.59	12.65	13.10	13.17
Ratio of common equity tier 1 required by the Supervisor of Banks	9.19	9.19	9.18	9.17	8.16
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.06	0.98	0.98	1.38	1.98
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**412,180**	**410,083**	**397,698**	**374,412**	**368,120**
Leverage ratio (in %)	6.2	6.0	6.0	6.3	6.0
Leverage ratio before applying the effect of the transition (in %)	6.1	5.9	5.8	6.2	5.9
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**79,444**	**79,544**	**72,896**	**72,945**	**67,627**
Total cash outflows	**60,884**	**63,464**	**60,104**	**58,435**	**54,958**
Liquidity coverage ratio (in %)	130.5	125.3	121.3	124.8	123.1
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	**244,356**	**244,403**	**242,323**	**232,304**	**226,437**
Total required stable funding (RSF)	**195,858**	**201,347**	**194,357**	**182,433**	**178,661**
Net stable funding ratio (NFSR) (in %)	124.8	121.4	124.7	127.3	126.7

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared according to the reporting directives of the Supervisor of Banks regarding "disclosure requirements detailed in the third Pillar of Basel and additional information regarding risks". The said Directive adopts the disclosure requirements detailed in the third Pillar of the work framework and instructions of Basel III, and in addition, disclosure requirements published by the Basel Committee and disclosure requirements based on other sources, including disclosure requirements published by the Financial Stability Forum (FSF) and the disclosure requirements published by the task team formed by the Financial Stability Board (FSB), for the improvement of risk disclosure in banking corporations. Within the framework of the updated directive, the quantitative and qualitative disclosure requirements have been changed.

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 report by the Board of Directors and Management 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 applies, will be in conformity with the risk identified and presented in the process framework of Internal Capital Adequacy Assessment (ICAAP);
- The disclosures 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.

The banking corporation's approach to risk management

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review".

Principles of risk management

The field of risk management continues to comprise an essential component of the operations of a banking corporation. The concept of risk management as well as the risk management culture is embedded in current operations, in material processes and in the processes for business decision making, as an integral part of the activity. Exposure of the Bank and of the Group to different risks are being tested on a current basis in the three lines of defense, and is being conducted from an overall Group and forward-looking standpoint.

The Board of Directors and Management assign great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals. Within the framework of integration of the risk management culture, focusing on integration of compliance culture continues, in the center of which are the maintenance of fairness and decency in the sale and marketing of credit and in collection proceedings, as well as in the protection of privacy in operations, processes and systems.

Overall principles for risk management

- Risk management is performed from a Group integrated viewpoint, cross organization, using methodologies and consistent terms with reference to all types of risks to which the group is exposed.
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law.
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks.
- A senior officer in the position of member of Management is assigned to each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense.
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint.
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defense lines involved in risk management.
- A dynamic and evolving over time risk management concept according to changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment.
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks (such as business model risks, model risks, privacy protection risks, chain of supply and more).
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, in a risk based approach with an emphasis on the integration of fairness and decency values in operations and processes.
- The risk management processes are integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including implementation of new product processes, where required.
- The policy and compensation procedures in the Group, promote attainment of the Bank's goals and integration of an effective risk management culture, and do not encourage acceptance of exceptional risks or risks exceeding the defined risk appetite.

Group risk management

The group risk management is an integral part of the Bank's risk management concept.
The Board of Directors and Management of the Bank are responsible for the supervision over the risk management processes involved in the activities conducted by companies in the Group, for forming effective frameworks for group processes and for the verification of the existence of proper control and supervision mechanisms.
The business strategy, the policy and corporate governance aspects are being conducted from a group viewpoint and support the existence of an effective chain of supervision over the activities of the Group.

In this framework, various functions have been defined having group responsibilities, for forming and strengthening mutual interfaces and involvement in significant decisions taken by subsidiaries, including the formation of group forums and orderly reporting processes by subsidiaries.
The risk management function at the Bank (as have additional functions) has group responsibility and has the duty to verify that the risk management processes, the tools and reporting format of the subsidiary companies match the group processes and tools, with modifications due to the characteristics of the unique activities of the subsidiary companies and their relevant regulation.
As a result, policy documents, tools, methodologies and infrastructure developed by the parent company are delivered to the subsidiary companies, which are responsible for their adoption, subject to adjustments required by their special operational characteristics. The Group acts continuously towards the improvement and tightening of the management, supervisory and control capabilities of the Group, and for the improvement of Group management capabilities, while establishing strategic moves from a Group standpoint and utilizing synergies within the Group.
Moreover, within the framework of the Strategy, Finance and Holdings Division operates the Group Management Wing, designated to increase the value of the Group subsidiaries by way of improvement of Group management and coordination.
Risk managers at the subsidiary companies administratively subject to the CEO of the subsidiary, but professionally act in conjunction with the Group's CRO.
The parent company (the Bank) holds periodic discussions regarding material subjects and issues of risk at the material subsidiaries, and also conducts a periodic monitoring of operations and development of risks.

Risk management Policy and its Objectives

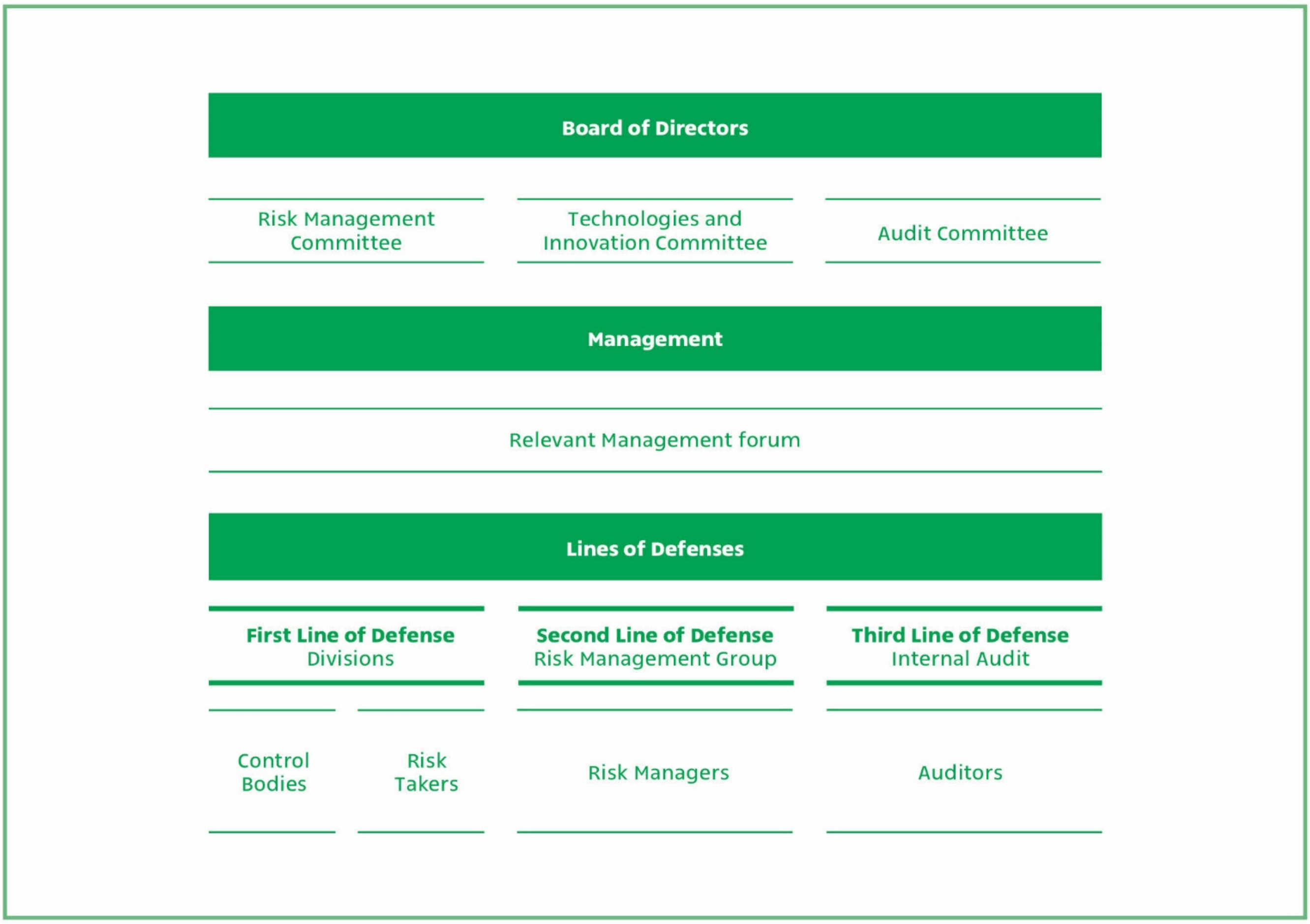
The risk management concept formed by the Group is according to directives of the Supervisor of Banks and accepted practices in the world. The risk management concept is established in a series of policy documents for the management of the various risks. These are approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the roles of the Board of Directors, Management and the definition of authority and responsibility of the functionaries taking part in the risk management processes. Furthermore, the documents define the tools and mechanisms for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.
The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments.
The policy documents are being updated from time to time, among other things, according to changes in the regulatory and business environment and new policy documents are being initiated according to the identification of forming and developing risks.
The risk management policy documents together with the Group's strategy, the risk appetite and the limitations under it, the capital and liquidity planning, and the work plans comprise the basis for the formation of specific policy documents as well as the regulation of areas of responsibility and authority of the different control functions, within binding work procedures.
The Bank and the Group are implementing ongoing effective processes of regulation, identification, supervision, monitoring, reporting and control processes regarding risk management and perform the monitoring of the Bank's and the Group's risk profile, and by means of different quantitative and qualitative indices.
The various policy documents express and provide a supporting framework for methodologies, tools, models and infrastructure established by the Bank. In this respect, we should note the use of various quantitative tools enabling the management of risk through varied statistical models (such as models for the risk rating of borrowers, models for assessment of market risks, etc.) as well as by means of methodologies and qualitative tools allowing an orderly and systematic process of identification, evaluation and monitoring of developments in risk and exposure. Alongside tools used for the current management of risk, the Group uses various scenarios in order to examine the exposure to risks under various scenarios and stress situations, as detailed hereunder.

The methods and work procedures regarding risk management, in Israel and abroad, are examined and updated from time to time, in line with changes in the competitive environment and in the business, internal and regulatory environment. The pace and dynamism of the changes in the banking world require that the risk-management tools, methods and infrastructure be constantly reviewed and improved.

Risk management corporate governance

The Discount Group adopts a corporate governance framework according to the Basel guidelines and the directives of the Supervisor of Banks, established as stated, in a series of infrastructure and policy documents regarding the various risks.
The Board of Directors, its committees and the Management place considerable importance on the existence of a risk management culture, aspiring to strengthen the professional standing, the independence and performance of the lines of defense, with a focus on the primary responsibility of the first line of defense for risks management. Divisional control functions operate at the business divisions, which comprise the risk management and control arm of the division and these accompany, and are involved in all the fields of activity that the division accompanies, so as to ensure that the risk management considerations are considered in the decision-making processes and that the risk-management and control aspects are adequately deployed.
The risk management structure at the Bank includes: the Board of Directors, Management, and three lines of defense, as detailed below.

The organizational structure of risks management



The Board of Directors

The Board of Directors is responsible for the Group's business affairs for its financial solidness and stability and the areas of its responsibility in relation to risk management aspects, are defined according to Proper Conduct of Banking Business Directive No. 301 and Proper Conduct of Banking Business Directive No. 310 and are established in work procedures supporting its activities and the activities of its different committees.
The Board of Directors is responsible for outlining the strategy and for approving the policy that guides the Group in its ongoing activities. In addition, the Board of Directors is responsible for setting the risk appetite, for outlining the risk management policy and for monitoring senior management's actions, so as to ensure that these align with the risk appetite, and the changes in the activities and the risk environment.
The operation of the Board of Directors is performed by the plenum of the Board and/or by its sub-committees on different subjects, by means of current, periodic and designated discussions, including from a Group standpoint.
Control and monitoring of risk management are conducted by the various committees of the Board, the principal of which are:

- **The Board of Directors' Risk management committee.** The committee assists and advises the Board in fulfilling its duties, verifying the existence of effective risk management processes in the Bank and in the Group. The Committee discusses and recommends to the Board on a policy for the management of the various risks and supervises the implementation of the policy determined by the Board. The committee convenes at, at least, quarterly intervals, also as the U.S. risks management committee;
- **Audit committee.** The committee examines the effectiveness of the internal control group through the various audit and control functions, monitors their findings and, among other things, is responsible to advise to the Board ways in which to rectify them. For the purpose of fulfilling its duties, the audit committee relies on the independent control functions, including the internal control division, the compliance functions, internal enforcement, money laundering and finance of terror prohibition functions.
- **Technologies and Innovation Committee of the Board of Directors.** The Committee helps and advises the Board of Directors in fulfilling its duties, in verifying the existence of effective risk management processes at the Bank and in the Group from the technological aspects, including cyber and data protection. The Committee supervises the application of the policy determined by the Board of Directors regarding cyber areas, technology and innovation, recommends the approval of new technological products requiring approval by the Board of Directors, according to the policy of the Bank, and supervises the progress of material technological projects of the Bank and of the Group. The Committee meets at quarterly intervals at least.

Management

The Bank's Management has many responsibilities as regards the risk management in the Bank and the Group, with a focus on outlining the Tone at the top, including the support for risk management processes. The policy documents (see above) include wide references to the tasks of the Management as an "organ" in the risk management field, where, in general, each task under the Board of Directors' responsibility, requires the prior attention of the Management: holding preliminary discussions, performing control and supervision tasks and forming recommendations for the Board of Directors. The Management is responsible for applying the risk management policy, maintaining control and supervision over the quality of risk management and the propriety of the risks measurement and evaluation. The Management acts through the Chief Risk Officer and the risk management division and through the Group risk managers' committee.

Committees and Forums

Different committees and forums. In addition to the Group risk managers committee headed by the President & CEO and with the participation of risk managers of the material subsidiaries, which meets periodically to discuss all issues required for the promotion and improvement of across the board processes for the management of risk at the Bank and at the Group, different forums and committees operate within the framework of Management, which contribute to and assist the Management in its risk management tasks, headed by the Chief Risk Officer, or anyone on his behalf. The principal forums and committees are: credit policy forum, measurement forum, pricing and risk

adjusted performance evaluation, stress tests forum, model validation committee, new products committee, the committee for the prioritization of technological projects for the implementation of regulation, operational risks management committee, operational risk controllers forum, compliance officers of the Group forum, and more. Furthermore, a large number of designated committees regarding different fields of activity operate at the Bank. These committees are, among other things, involved in the risk management process. Among these may be mentioned the various credit committees, assets and liabilities management (ALM) committee, and more.
The committees of the Board of Directors, the Management committees and the various forums, assist the Management and the Board of Directors in conducting in-depth and focused discussions, while analyzing and examining alternative to a decision, contributing to the improvement of the quality of control and the risk management at the Group.

Lines of defense

The risk management concept at the Group is based upon three lines of defense participating in the current risk management. An understanding and internalization of the responsibility and the division of responsibilities between the lines of defense, which is regulated by a series of policy documents in risk areas.

- **Risk takers (First line of defense).** All units of the Bank that take risks, and in particular business units, are responsible for the current management of such risks by means of identification, measurement, monitoring, control and reporting processes, conducted by functions in the unit, and/or in designated control units. These units operate according to the risk management policy and within the limits of the risk appetite and specific restrictions determined by power thereof. Most divisions operate designated control functions, which are guided professionally by the risk management division and which support the division heads in the management of the risks accepted within the framework of their activity.
  In recent years, the Group has strengthened their status, qualification and independence of the control functions operating within the first line of defense, including the increase in resources allocated for the support of their operations.
- **Chief Risk Officer and the Risk Management Division (Second line of defense).** This line of defense is responsible for the overall risk management framework at the Bank. See below.
- **Internal audit (Third line of defense).** The internal audit is subject to the Chairman of the Board, and as such, independent of the first and second lines of defense, and assisting the Management and the Board in the efficient and effective realization of their duties and responsibilities. Among other things, the internal audit conducts a current and independent review on the risk management procedures and of the evaluation of the Group's risk profile, including efficiency and effectiveness of controls and of the resources allocated to a proper risk management, as well as an examination of the reliability and timing of reports to the Supervisor of Banks and to regulatory authorities.

Risk Management division (second line of defense)

Heading the Division is the Chief Risk Officer, who is also a member of the Management who reports to the President & CEO independently. The Chief Risk Officer is required also to assist the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management of all risks at the Bank and the Group, within the framework of the second line of defense.
Risk management has been defined by the Bank as a function having Group responsibility. Accordingly, special emphasis is being put on tightening the interfaces with the subsidiaries and the overseas extensions and on the guidance provided to them regarding the adoption of processes and tools in methodologies determined by the parent company, with the required adjustments and to discuss risk issues and material projects, which impact the risk profile of the subsidiaries.
Among the main tasks of the division may be mentioned:

- Identification and correct evaluation of the exposures and the identification of existing and developing risk centers;

- Verification of capital adequacy, ensuring the long-term stability of the Group, taking into consideration, among other things, changes in exposures and in the business and regulatory environment, and compliance with risk appetite as determined by the Board of Directors. This, while using a variety of methods and tools, ensuring the Group's capital adequacy, in the ordinary course of business and under various stress tests;
- Support and involvement in material processes, such as accompanying processes regarding strategic planning, capital planning, the finance strategy, compensation, planning of work plans, introduction of new products, central projects, innovative projects, computer projects etc., this alongside support of decision making processes, such as providing an opinion on credit applications and on investments that involve a material credit exposure and approval of ratings, classifications and allowances. This, with the aim of verifying the integration of risk management aspects in these processes and the examination of their effect on the risk profile at the Bank and the Group;
- Current reporting to the Management, to the Board of Directors and to committees of these organs, as a risk based management tool;
- Responsibility for determination of credit ratings and/or their approval.
- Responsibility for the appropriateness of classifications to problematic debts and expenses for credit losses.

The Risk Management division combines under it the independent functions of risk management, comprising the units managing credit risks, market and liquidity risks, operational risk (which also combines under its responsibility the fields of embezzlement and fraud risks, business continuity, human resources risks), cyber, data protection, outsourcing risks, IT risks, as well as the compliance risk units and internal enforcement, prohibition of money laundering and finance of terror risks, cross-border risks and model risks. The managers of the risk management units operate, as stated, as the second line of defense and conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies and models. In addition, the Chief Risk Officer is responsible for control functions, including the credit controller, second opinion units, including on credit ratings and on the appropriateness of classifications and of expenses for credit losses, as well as supervision and evaluation function, which conducts, among other things, supervision and control procedures over the subsidiaries and overseas extensions, as well as the overall risk assessment processes, including management of the annual process for the evaluation of the risk profile of the Internal Capital Adequacy Assessment Process (ICAAP). Furthermore, Information Systems and Infrastructures Unit operates within the framework of the Division, providing support for the promotion and management of risk management systems.

Risk management tools

The Group develops and implements different tools supporting risk management processes, which enable identification, measurement and assessment of risk, based on a variety of tools and methods, which include quantitative and qualitative components. These allow a review of exposures and the changes therein, under different scenarios, including cross-organization risks and risk concentration. The following tools may be mentioned in this respect:

- **Risk appetite –** one of the central tools used by the Board of Directors for the supervision over the risk profile of the Bank. The risk appetite outlines the borders of the area of operation and is applied in correspondence with the strategic outline and the capital outline. The risk appetite includes quantitative and qualitative components relating to all types of risk.
- **Limitations, indicators and alert levels –** by power of the risk appetite statement, specific risk appetite documents are created with respect to material risk areas, which outline the determination of the Group's business policy as regards such risk areas, and which include limitations, risk targets and/or alert levels designed to ensure compliance with the quantitative limitations and with qualitative goals determined in the statement. Limitations are being monitored on a current basis and are periodically reported to the Board of Directors.
- **Development and validation of models –** The Group operates according to a multi-annual work program for the development of advanced models, with an emphasis on the development of advanced models for the risk based rating and pricing of credit, according to accepted methodologies in this area. In this framework, use is also being made of advanced systems for the development of models (based on Big Data and Machine learning).

- Concurrently with the development of the models, periodic validation of these models is made, at intervals and preference determined according to the model's risk level and to changes in the models or in the economic environment. New models are put into use only after a validation process and the approval of the model validation committee.
- **Scenarios and stress tests –** The Bank utilizes different forward looking scenarios and stress tests as supplementary tools for the risk management processes, which support capital planning processes, establish the risk appetite, evaluation of capital adequacy and the identification of vulnerable areas (see extended discussion in the Chapter on capital adequacy). The results of stress tests are discussed with the business factors and support the determination of the business policy and of pricing. Moreover, according to the results of stress tests, the Bank forms various contingency plans with the aim of supporting the deployment of the Group for various crisis situations.
- **Risk surveys –** the Group applies periodic processes for the performing of risk surveys in different areas, as detailed below. The risk surveys enable the periodic identification and assessment of risks to which the Group is exposed, and allow the dynamic management of exposure maps and of the supporting risk reduction plans.
- **Risk profile assessment –** the Group conducts a current follow-up of changes in the risk profile of the Bank and of the Group companies, based on the Group's tools, models and methodologies, and regarding periodic reporting processes. The principal changes are reported within the framework of the annual risk document (ICAAP), as well as in the quarterly risk documents, which are discussed and approved by Management and by the Board of Directors. The assessment of changes in the risk profile is based on monitoring, control and reporting of changes in risk profile processes, as well as compliance with limitations, indicators and various alert levels, including in comparison with the banking sector. In this framework, Management and the Board of Directors also reviews material changes in quality and effectiveness of the risk management.

Risk culture and absorption of the usefulness of risk management processes

The Group acts on a continuous basis towards the improvement and strengthening of the risk management processes, with a view of establishing and leading a proper risk management culture. Management and the Board of Directors guide the exact and uncompromising implementation of regulatory rules, including the verification of their integration into the relevant factors.
The tone at the top constitutes an important and significant role in outlining and assimilating this culture at the Bank and at the Group, while providing a personal example and importance for the integration of risk management processes as an integral part of current management and decision making processes, and while allocating the necessary resources required. Main emphasis was given to integrating risk-based goals, as support for the measurement of business performance. Accordingly, the risk management division follows and is involved in central processes from their inception, in order to verify that risk management considerations are integrated as an integral part of business activity.
Assimilation of risk management culture, the usefulness of the tools, the methodologies and the models being developed at the second line, in the business processes and risk management processes at the first line, are being performed, among other things, by means of tutorials, conventions, training sessions, integration, controls and audits.

Integration in business and strategic processes

The risk management division accompanies the progress of implementation of the strategic plan and the work plans, as from the planning stages, while periodically monitoring and controlling the risk management aspects of these plans and their impact upon the risk profile of the Bank and the Bank Group. Within the framework of the operations of the division, tools and methodologies are being integrated for use of the first line, which support the assessment of risk in the different operations and projects, including integration of mitigation plans and monitoring and control infrastructure, which support risk mitigation.

Representatives of the division accompany the progress of the various strategic projects, and the concept of risk management is also being integrated into the various projects, including the establishment of the periodic assessment of project risks and review of the appropriateness and progress of the different reduction plans.
Integration of risk management aspects as an integral part of the project management processes, as well as assessment processes by the divisions with respect to the effect of their different plans on the risk profile constitute, in the opinion of the Bank, an important layer in the absorption of the risk management culture and in increasing the usefulness of the process.
Moreover, a management stress and focus is applied to the establishment and updating of information infrastructure and performance measurement, in supporting the implementation of the strategic plan and of work plans, where alongside the business goals, risk based goals and measurement have also been integrated, as part of the plans for motivating and compensation of employees at the different management levels.
For additional details regarding the integration of risk management aspects in the policy and in the compensation plans, see below.

Approval of new products

The introduction of new products/operations requires performing an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile, among other things, by means of materiality thresholds, and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group. The main subsidiaries have been guided to deliver for examination and approval of the parent company requests for approval of operation of new products that are material to the operations of the subsidiary, which may have an impact on the risk profile.
Integration of the process at the Group level contributes to the ability to identify and evaluate new risks being created, and verify proper preparations and hedge of such risks by means of supporting work processes, infrastructure and controls.
The widening of cooperation with fintech bodies are accompanied by instigating new product processes, which contribute to the understanding of the overall risks involved in the operations, and to the formation of mitigation means and supporting controls as well is to regulating these developing fields.

Risk based pricing

The Risk Management Division continues to integrate risk based pricing, which supports improvement of pricing and return on equity, while integrating a uniform language for risk adapted performance assessment into the Group companies, from the level of the individual transaction and up to the level of the principal lines of activity, while improving the allocation of risk assets among the business lines.
Goal for the return on the economic and regulatory capital have been integrated as part of the business goals of the various divisions and as an integral part of the Bank's business policy.

Accompaniment of the credit management processes

The risk management division is responsible for leading the credit policy in cooperation with the business functions, including the updating of the risk appetite and the determination of overall goal for risk management, including: the raising of the return on the economic capital, conduct aspects regarding risk adjusted pricing, maintaining the stability of the Group and the desired risk profile of the credit portfolio as well as the management of the credit portfolio on a Group basis. Concurrently, principles included in the Group credit policy are adopted also by the subsidiary companies, and the credit policy documents of the subsidiary companies are being challenged.
Furthermore, the risk management division is involved in the credit approval process, by way of the rendering of a second opinion, and the increased involvement in the quarterly process of examining the appropriateness of classification and the allowances for credit losses at the Bank and at the Group, and examination of the appropriateness of the process of control over classification and allowance process.

Planning and performance of risk survey and risk mapping

As part of the current management processes, the group performs periodic risk surveys of the different risk areas, such as operational risk and business continuation risk surveys, business impact analysis (BIA), infrastructure survey, compliance gaps survey, survey of risks and data protection in the systems of the Bank and the Group, risk mapping as regards the administrative enforcement field, and more. The surveys are performed by the first line of defense, in part independently and in part with the assistance of professional consultants, and support the process of identification and assessment of risk as well as the formation of supporting risk mitigation plans. These reviews are accompanied and challenged respectively by the second line of defense. The Group conducts cyclical processes to update the risk surveys, according to a multiyear work plan, with the support and challenge of the identification and assessment processes, by the Risk Management Division.

Monitoring and control operations

Effective processes of risk management include the implementation of control, mitigation and monitoring operations, as part of the current operations of the defense lines control functions, which allow for a quick response to changes in the risk environment. The control operations include, among other things, reference to goal determination, limitations, indicators and warning threshold derived from the risk appetite and the monitoring thereof by means of defense lines according to the different risk characteristics, including the determination of a clear reporting format with respect to deviations and the establishment of current processes for testing the effectiveness of such processes. As part of the different mitigation plans, efforts are gathered to verify the quality of existing controls, while endeavoring to computerize the controls (preventing, discovering, independent and compensating) in the array of operations at the different lines of defense.
The continuing improvement in the Group's organizational strength in the management of business continuity risk, by applying an operating concept, formation of supporting infrastructure, management of the BIA process, exercises and more.

Establishment of the professional position and qualification of the control functions of the first line of defense

The Group acts towards the continued strengthening of the control functions of the various divisions and groups, with a focus on the business divisions. Noted is the strengthening of their independence, qualification and position in the implementation of the duties assigned to them, including as integrators of knowhow also in areas of specific risk management, such as: compliance, prohibition of money laundering, operational risk (including risks of fraud and embezzlement) cross-border risks, technology, cyber and data protection risks as well as verification of qualifications in credit areas.
Operational risk controllers and the group of compliance trustees operate in this framework at the divisions. Managerial focus was placed on the establishment of their position and professional qualification as integrators of control supporting knowhow. Operating routines have been devised for the control functions of the first line, and designated forums have been formed and reporting interfaces have been institutionalized. All these are being updated from time to time according to the development of risk centers at the divisions and according to changes stemming from the realization of strategic projects and technological changes.
The compliance officers and controllers group at the divisions supports the maintenance of proper processes for the verification of compliance to policy, procedures and to the limitations derived there from and the monitoring of violation and/or failure events.
Within the framework of the implementation of the provisions of Proper Conduct of Banking Business Directive No. 308, risk compliance managers have been appointed at the Divisions, who are responsible for the implementation of the instructions mapped within the areas of their responsibility.

Training, exercising and integration of risk management culture

A central focus of the assimilating activity has been directed to the structuring of the training and integration layout from a risk based outlook. Operations are performed by representatives of the risk management division and/or by means of the control functions at the divisions, while being assisted by the Bank's training group and the product managers.
Assimilation processes are conducted in respect of target population as well as all Bank employees, which include, among other things, orderly training and guidance programs, conducting knowhow tests, formation of work routines and risk focused controls, the holding of seminars on various subjects related to the improvement of the culture, such as seminars for the drawing of conclusions, analysis of material failure events, etc. This, in addition to training processes in the business fields being conducted with a view of preserving the qualification of employees.
As part of the training, use has been made, among other things, of the organizational platform for distance learning, which allows organizational study by means of various study flashes, which the employee performs at his work station with a focus on regulation and control aspects.

Reporting layout

As support for current control over changes in the risk profile, orderly and uniform reporting processes are in effect with respect to various issues as defined in the policy documents, such as reporting of deviations from limitations, exceptional events, failure events/significant deficiencies/violations. This alongside orderly reporting interfaces on the part of the divisions and subsidiary companies with respect to concentrating changes in the risk profile, according to types of the different risks and periodic reports and reviews regarding principal operating centers and/or risks.

Material leading and developing risks

According to the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.
Following are details regarding the most material leading and developing risks.
Macro environment risk. The macro-economic environment is volatile and uncertain, and is influenced by the high inflation rate, by supportive monetary measures and by shrinking liquidity in the markets, all leading to a slowdown. This, alongside geopolitical aspects, impacting the global and domestic economies and the markets. The implications of the macro-economic environment have an impact mostly on credit, investments, market and liquidity, cyber and models risks.
The sharp fluctuations of the markets and the pace of changes create a rise in the risk of a global recession and may lead to a reduction in demand for credit and to an increase in credit losses.
Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry. This, alongside increasing the consumer transparency and aspects of fairness in the banking system and a change in consumer expectations.
The dynamics, competition, the pace of changes, alongside the volatility and uncertainty of the macro-economic environment, lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine flexible and advanced solutions for the realization of the growth potential, from a forward looking standpoint, which would ensure the continued positioning of the Group as a leading banking group also in the future. Accordingly, the Group updates annually the list of strategic projects, emphasizing the continuation of efforts regarding strategic focal points, alongside a constant examination of changes in the risk environment.

Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality protection and control, exposure to cyber risks, fraud, leakage of information and protection of privacy. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.

Alongside the initiation of new projects for improving the Group's preparations towards future banking, crosswise and continuous processes are being implemented, supporting and improving traditional banking processes through improving and making accessible the operations with customers and improving the services. Furthermore, steps are taken to maximize the value of the Group, alongside increasing efficiency and reducing costs, including by means of operational efficiency and digitation of processes.

Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies, this alongside the increase in fraud risks. Due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cyber world has grown (cooperation with third parties, open banking, cloud computer services, use of open code, transition to distance working and more).

With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate abundant resources for the facing of such threats, including their direct involvement. The policy, the methodologies and the tools supporting management of the risk, are being updated and developed on a current basis, while stressing the continuing improvement of monitoring and protection tools used against internal and external threats and the preparations made for providing immediate response to events. A process is conducted of continuous maintenance and persistent improvement of controls by different methods and the challenging thereof. This, concurrently with a current dialogue with the Regulator and with the Israel National Cyber Directorate.

Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working according to a multiyear work program, to develop advanced models, as well as to constantly improve the tools and methodologies that support the model risk management.

Environment and climate risk. In recent years, the topic of managing environment and climate risks has become a primary focus of regulatory attention due to an understanding that the materialization of environment and climate risks might have an effect on the banking system and in extreme cases might even lead to global and systemic consequences. Accordingly, different regulators around the world, including supervisors of banks, are acting towards the regulation of this field (including principles for the effective management of climate related financial risks). The Bank had conducted a survey of differences from the practice and has formed a work plan for the comprehensive management of climate risk, based on a study of existing trends in this field.

In 2023, the Bank intends to promote its readiness in the field of climate risk management, while following up and studying accepted practices around the world and the implementation thereof in relation to banking business.

For additional details, see in Chapter "C" of the Board of Directors and Management report – "Risk review".

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	31.12.2022	30.09.2022	31.12.2022
	in NIS millions		
Credit risk – standardised approach	213,237	207,532	26,655
Counterparty credit risk (standardised approach)	5,693	6,464	712
Credit valuation adjustment (CVA)	2,077	2,154	260
Securitization exposure (standardised approach)	289	278	36
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,834	5,745	729
Total credit risk	227,130	222,173	28,392
Market risk (standardised approach)	3,633	4,294	454
Operational risk	16,685	15,979	2,086
Total	**247,448**	**242,446**	**30,932**

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 Addendum A in this report, below.

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

Summary of movement and changes in risk-weighted assets

	2022	2021
	NIS millions	
Balance at the beginning of period	196,200	175,080
Change in exposures		
Realizations (balance-sheet credit)	24,382	17,094
Bonds	(237)	150
Derivatives	643	(171)
Facilities	6,204	14,154
Guarantees	6,292	5,039
Other assets	3,136	601
Total Change in exposures	**40,420**	**36,867**
CCF effect	(8,472)	(12,802)
Change in exposures after CCF effect	31,948	24,065
Changes in risk mitigates		
Guarantees (replacement)	3,486	4,723
Financial risk mitigates	354	1,641
Total	**3,840**	**6,364**
CCF effect	(2,399)	(3,526)
Change in risk mitigates after CCF effect	1,441	2,838
Change in CVA	421	(107)
Total Change in credit risk-weighted assets	**30,929**	**21,120**
Balance at period end	227,129	196,200

The linkage between the weighted risk assets and the business transactions and the related risks

The data below reflect the relationship between the risk-weighted assets and the business activities, by the Bank's regulatory operating segments.

	Domestic operations								International operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
	in NIS millions												
	For the year ended on December 31, 2022												
Average Risk-assets[1]	65,601	665	39,641	16,549	57,782	767	18,279	199,284	1,792	29,126	2,452	33,370	232,654
Balance of Risk assets at the period end[1]	70,055	772	40,541	17,082	65,667	886	17,950	212,953	1,805	29,872	2,817	34,494	247,447
	For the year ended on December 31, 2021												
Average Risk-assets[1]	56,272	529	35,643	14,044	51,558	1,078	16,427	175,551	1,642	25,451	2,213	29,306	204,857
Balance of Risk assets at the period end[1]	60,900	569	37,729	14,953	53,314	817	16,400	184,682	1,701	26,744	2,194	30,639	215,321

Note:
(1) Risk weighted assets – as computed for capital adequacy purposes.

Capital and leverage

Main developments in 2022

Increase in capital

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

Issue of debt instruments

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

Issue of subordinate debt notes having a loss absorption mechanism (Coco). On November 27, 2022, the Bank, through Manpikim, completed an issue of subordinate debt notes having a loss absorption mechanism (Series "I"), in a total amount of approx. NIS 463 million, at an effective margin of 2.62%.

Basel and the regulatory capital requirements

General

The Basel Committee is an international body established in 1974 by the central banks of various countries. The decisions and recommendations of the Committee, though not legally binding, determine the supervisory principles according to which the authorities that supervise the banking systems in a significant number of countries around the world operate. In June 2004, the Basel Committee published recommendations intended to ensure proper regulation with respect to capital adequacy of banks in the various countries (hereinafter: "Basel II"). The Basel II guidelines have been regularized in Israel within the framework of Proper Conduct of Banking Business Directives Nos. 201-211. Most of these instructions have been amended in the course of 2013, and adjusted to the instructions of Basel III. For additional details, see below.
The Basel instructions are comprised of three pillars:

- **First pillar - Minimum capital requirements.** Defines the manner of computing the capital to risk components ratio. For additional details, see hereunder.
- **Second pillar – supervision and control process over capital adequacy**. Within the framework of the second pillar banking corporations are required to conduct an internal process designed to evaluate the appropriateness of capital adequacy and to adopt a strategy intended to ensure capital adequacy - Internal Capital Adequacy Assessment Process ("ICAAP"). For additional details, see hereunder.
- **Third Pillar – "Market discipline".** The banking corporations are required to present proper disclosure and expand the reporting to the public regarding the risks involved in their operations, in a manner that would enable the public to better understand the overall risks to which they are exposed, the way in which such risks are being managed and the amount of capital allocated in their respect.

Composition of the capital

Capital components for calculating ratio of capital

	December 31,	
	2022	2021
	in NIS millions	
A. Common Equity Tier 1		
Common equity	25,478	22,148
Difference between common equity and common equity tier 1	(262)	(395)
Total common equity tier 1 before supervisory adjustments and deductions	**25,216**	**21,753**
Supervisory adjustments and deductions		
Goodwill and other intangible assets	175	195
Supervisory adjustments and other deductions	25	8
Total supervisory adjustments and deductions before effect of adjustments for the efficiency plan and before effect of adjustment for expected credit losses	**200**	**203**
Total adjustments in respect to the efficiency plan	202	289
Total adjustments for expected credit losses	135	-
Total common equity tier 1 after supervisory adjustments and deductions	**25,353**	**21,839**
B. Additional tier 1 capital		
Additional tier 1 capital before supervisory adjustments and deductions	-	178
Total additional tier 1 capital after supervisory adjustments and deductions	**-**	**178**
C. Tier 2 capital		
Instruments before deductions	3,942	4,431
Allowance for credit losses before deductions	2,839	2,452
Minority interests in a subsidiary	97	88
Total tier 2 capital before deductions	6,878	6,971
Deductions	-	-
Total tier 2 capital	**6,878**	**6,971**

For details regarding the connection between the balance sheet and the components of the regulatory capital, see below Appendix "A" to this report.

Statement of flows of the regulatory capital

Summary of movements and changes in the regulatory capital

	2022	2021
	in NIS millions	
Balance at the beginning of period	28,988	25,233
Common Equity Tier 1 before deductions		
Paid up share capital	7	-
Share premium	1,391	-
Retained earnings, including dividends proposed or declared after the balance sheet date	2,847	2,594
Unrealized profit (loss) from adjustments of available-for-sale securities to fair value	(1,562)	(243)
Unrealized profit (loss) on cash flow hedging	(19)	(2)
Translation adjustments of autonomous units held abroad	484	(113)
Other reserves which received the Supervisor's approval	294	(112)
Minority interests in the equity of consolidated subsidiaries	66	20
Total Common Equity Tier 1 before deductions	**3,511**	**2,144**
Goodwill and Intangible assets	(21)	(12)
Deferred taxes the realization of which is based on future profitability of a banking corporation	-	-
Deferred taxes attributable to timing differences (over 10% of Common Equity Tier 1)	-	-
Unrealized profit (loss) as a result of changes in fair value of liabilities resulting from changes in the Bank's self credit risk	(3)	24
Threshold deductions - the amount exceeding 15% (according to Section 13 of Directive No. 202)	-	-
Others	20	-
Total deductions from Common Equity Tier 1	**(4)**	**12**
Total Common Equity Tier 1 after deductions	**3,515**	**2,132**
Instruments issued by the banking corporation qualified for inclusion in regulatory capital according to transitional instructions in Directive No. 299	(178)	(178)
Total Additional Tier 1 Capital after deductions	**(178)**	**(178)**
Instruments issued by the banking corporation and premium on these instruments (in accordance with Section 10A and 10B of Directive No. 202)	(338)	1,723
Instruments issued by the banking corporation qualified for inclusion in regulatory capital according to transitional instructions in Directive No. 299	(152)	(188)
Minority interests in consolidated subsidiaries	9	2
Group allowances for credit losses before related tax effect	387	264
Total Common Equity Tier 2 before deductions	**(94)**	**1,801**
Deduction for investment in financial corporations mainly for FIBI	-	-
Total deductions from Tier 2 Capital	**-**	**-**
Total Tier 2 Capital after deductions	**(94)**	**1,801**
Balance at period end	**32,231**	**28,988**

Capital adequacy

Evaluation of capital adequacy

The ICAAP process - Capital requirements according to the second Pillar of Basel

The internal capital adequacy assessment process (hereinafter: "ICAAP") is a Group self-evaluation process performed within the framework of the second Pillar of Basel II, which is intended to ensure a continuous capital adequacy of the Group in relation to its risk profile.

An annual report to the Supervisor of Banks in Israel is submitted in respect of this process, which is being reviewed by the Supervisor within the framework of the Supervisory Review Evaluation Process (hereinafter: "the SREP").

Furthermore, current monitoring and supervisory processes are being conducted with respect to changes in the risk profile, while monitoring and examining developments in the risk assets and in the capital and submitting a quarterly report, "the risk document", which also includes an evaluation of the Group's capital adequacy.

From the viewpoint of the Basel framework, the processes for capital adequacy assessment are complementary processes to the provisions of the first pillar, providing a binding framework for the allotment of capital.

In this process, the banking group is required to evaluate, by itself the adequate volume of capital requirements in relation to the risks to which it is exposed and to the quality of its risk management, in order to ensure its long-term financial stability. Accordingly, the ICAAP includes an examination of all risk management processes in the Bank Group, including corporate governance and a group management of risk management, identification of material risks to which the Group is exposed, quantification of the overall exposure to risk in terms of capital and performing a comparison between the volume of exposure and the Bank's capital resources at the present time and from a forward looking standpoint, while providing a solution for the market cycle, for periods of stress and for various scenarios, including stress tests.

As part of the ICAAP, banking corporations are required to reassess their capital requirements, both in respect of risks that were addressed by the first Pillar and material risks not addressed by it, and determine, subjectively, what is the adequate level of capital required in respect of such risks (capital adequacy assessment).

The additional risks included in the second Pillar are composed of risks not addressed by the first Pillar, where it is possible to compute the extent of related exposure and the capital allocation required in their respect on a quantitative basis (such as: concentration risk, interest risk in the banking book, etc.) and from qualitative risks, which are examined within the framework of the comprehensive examination of the capital adequacy (such as: reputation risk, compliance risk, strategic risk, legal risk, etc.). Furthermore, within the framework of the second Pillar, banking corporations are required to perform stress tests in order to examine their capital adequacy.

Stress tests

The Bank uses forward looking stress tests as a complementary tool for the risk management processes, the aim of which is to alert Management of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. The holistic stress tests are being used for the examination of the Group's capital adequacy in such cases, and for the determination of the minimum capital adequacy targets also from a forward looking viewpoint. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

The Group has a policy for the management of stress tests, which defines the principals for the proper management of the scenarios and the duties of the Board of Directors and Management in the review and identification of possible stress tests, examination of the methodologies and models for assessing the effect of stress tests, and for reviewing the reasonableness of the results.

A uniform methodological framework was defined to establish an orderly work procedure for the implementation of stress tests at the Bank and at the subsidiary companies, which details the methodology and the models used by the Group to evaluate the effect of stress tests on credit risks, market risks and on certain components of the profit and loss.

This methodology combines the examination of the effects of stress tests examining the effects of changes in macro-economic parameters on the profit and loss items and on the capital, using internal models developed by the Bank, and the examination of the effects of stress tests on identified vulnerability areas/specific risk centers, while challenging the assessment results by the business functions. The said combination provides the Bank flexibility and relative speed in running a variety of scenarios with different sensitivity analyses on the one hand, and specific examination of the exposures on the other hand, while addressing the Group's unique risk characteristics and increasing the usefulness of the tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

A uniform macro-economic stress test. Starting with the year 2014, the Bank performs an annual examination of the effects of a uniform macro-economic stress test, the scenarios thereof are published by the Supervisor of Banks and belong jointly to the banking industry in general.

The uniform stress test is integrated into the processes for the evaluation of capital adequacy.

Capital planning process

The process of planning and managing the capital is a group process conducted on an ongoing basis, the aim of which is to ensure the management of the capital ratios of the Group from a long-term viewpoint, with an optimal allocation of the Group's assets from a risk based viewpoint and in line with the strategic plan and the Group's risk appetite. Following are the main objects of the capital planning:

Determination of the minimal capital ratios

The capital ratios in the Group are determined by the Board of Directors, so that they would be equal to or higher than the regulatory minimal capital ratios (according to Proper Conduct of Banking Business Directive No. 201). The capital ratios are determined on the basis of the results of the capital adequacy assessment process (ICAAP), and reflect the risk appetite of the Group.

The regulatory minimal capital ratio, as defined by the Supervisor of Banks – according to Proper Conduct of Banking Business Directive No. 201, a banking corporation has to maintain a minimal Common Equity Tier 1 ratio of 9% and an overall capital ratio of 12.5%. In September 2014, the Supervisor of Banks issued a circular relating to "restrictions on the granting of housing loans". According to the instruction, a banking corporation is required to raise the ratio for the Common Equity Tier 1 by a rate of 1% of the outstanding balance of housing loans. The said requirement increased the total minimum equity capital requirement by approx. 0.20% to 9.20%.

Capital goals for the capital planning horizon

Capital goals. At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test. It should be noted that these goals consider, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[1].

On the basis of the ICAAP and the SREP procedures as stated, including the latest uniform stress tests performed, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75%.

1 For the meaning of the term "uniform stress testing" and for further details, see "Stress testing" in Chapter C in the 2021 Annual Report, as well as "Assessing the capital adequacy" above.

Capital planning

As part of the capital planning process, the capital targets of the work plan, while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived.
The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations according to transitional instructions. The Bank examines a number of scenarios for achieving the prescribed capital ratios.

Sensitivity of the capital adequacy ratio to changes in common equity tier 1 and risk assets

	Change in common equity tier 1 ratio	Change in total capital ratio
	December 31, 2022	
Reduction of NIS 100 million in equity	(0.04%)	(0.04%)
Increase of NIS 1 billion in risk assets	(0.04%)	(0.05%)

Determination of a capital buffer

The amount of the "capital buffer" maintained by the Bank, in excess of the minimal capital ratios determined by the Board of Directors, in intended to ensure compliance with the capital targets during changing market and profitability conditions. The capital buffer has been determined by the Bank on the basis of a varied analysis of profitability scenarios, fluctuations in the capital fund, fluctuations in the impact of the revaluation of employee rights upon the capital and a scenario in which Israel's credit rating is downgraded. Improvement in the capital management and monitoring capabilities, and the reduction in the Group's market risks (following the elimination of interest risk relating to the liabilities to employees, which are revalued according to the return on linked government bonds with the addition of a credit spread of U.S. corporations having an AA rating) allow the Bank to hold a lower capital buffer than that held in the past.
A contingency plan for short-term capital adequacy improvement, which is based on a reduction of risk assets, has been drawn up in order to cope with situations of capital buffer erosion.
As part of current management, the Bank monitors the sensitivity of the capital ratios to market risks, including risks regarding interest, shares and the increase in spreads.

Risk assets budget

Following the determination of the capital targets and the required amount for the capital buffer, the limitation on the overall increase in risk weighed assets was computed with a five-year viewpoint. The risk assets budget determined for 2023 ensures the Bank's Group attainment of the determined capital targets. The allocation of risk assets among the business units and the subsidiary companies is the outcome of the strategic planning while optimizing the return on the Group's capital. As part of this process, a capital requirement mapping had been performed in each company in the Group and decisions have been made regarding the allocation of facilities of risk assets on the basis of business considerations for maximizing profits as well as additional strategic considerations.

Monitoring the capital ratios

Within the framework of the capital management, the Bank examines on a current basis its ability to comply with the internal capital goals, as determined by the Board of Directors in the work plan, while monitoring developments in the use of risk assets by the Bank and by the Group companies, and the assessment of compliance with the capital targets determined for the Bank and for each company in the Bank Group. The monitoring of capital, including the forecasting of capital ratios for a year in advance, is being presented to the Management on a current basis.

Should the forecasted capital ratio be considerably lower from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.

Capital management at the subsidiary companies

The capital targets determined by the group capital management process are used as leading principals for the subsidiary companies. These targets serve as a basis for the individual capital planning of each subsidiary, with required adjustments. Moreover, leading principles have been determined for the distribution of dividends by the subsidiaries to the parent company, with a view of improving the capital efficiency of the subsidiaries while maintaining a capital level in each of them commensurate with the overall risk level which it manages.

A financial plan for strengthening capital adequacy in times of crisis

Within the framework of capital planning approved by the Board of Directors, there exists a financial plan for strengthening capital adequacy. The plan presents the principles and tools at the disposal of the Group in order to face situations of serious harm caused to the capital ratios due to a financial crisis. Moreover, the functions responsible for the management of the tools operate to face crisis situations, each within his area of responsibility in the ordinary course of business. In line with this plan, the business functions form plans providing specific response designed to face the financial crisis, within the framework of which the tools for action in case of a crisis are described, as well as additional actions to be adopted, the timing thereof and the level of authority that has to approve them.

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, 2022).

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

	December 31,	
	2022	2021
	NIS millions	
Total assets according to the consolidated financial statements	376,754	335,088
Adjustment for investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-
Adjustments for trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-
Adjustments for derivative financial instruments	(2,597)	(190)
Adjustments for SFTs	-	-
Adjustments for off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	35,607	31,110
Other adjustments	2,416	2,112
Exposure for the purpose of the leverage ratio	**412,180**	**368,120**

Disclosure of the leverage ratio (LR2)

	December 31,	
	2022	2021
	NIS millions	
Balance sheet exposures		
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	362,878	326,583
Asset amounts deducted in determining Tier 1 capital	(195)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	**362,683**	**326,388**
Derivative exposures		
Replacement cost associated with all derivatives transactions	4,837	2,836
Add-on amounts for PFE associated with all derivatives transactions	3,986	2,507
Gross-up for derivatives collateral provided which were deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-
Exempted CCP leg of client-cleared trade exposures	-	-
Adjusted effective notional amount of written credit derivatives	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-
Total derivative exposures	**8,823**	**5,343**
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	5,068	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	**5,068**	**5,280**
Other off-balance sheet exposures		
Off-balance sheet exposure at gross notional amount	138,814	125,560
Adjustments for conversion to credit equivalent amounts	(103,207)	(94,450)
Total off-balance sheet items	**35,607**	**31,110**
Capital and total exposures		
Tier 1 capital	(1)25,353	(1)22,017
Total exposures	412,180	368,120
Leverage ratio		
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.2	6.0

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

Credit Risk

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.

The credit risk management concept at the Bank and at the Group is designed to secure a proper balance between the business factors that directly create and manage exposure to credit risk, and the factors engaged in supervision, independent risk control and evaluation, and the factors engaged in the audit.

Hereunder is included reference, as the case may be, to the principal subsidiaries - IDB Bank and Israel Credit Cards ("ICC"). In view of the fact that MDB is similar to the Bank in its general characteristics, from the general lines of operation and related regulatory aspects, no separate reference is generally included with respect to this bank.

New drafts and directives

Strengthening the control and monitoring processes with respect to credit for the construction and real estate sector. For details regarding the Banking Supervision Department's letters dated August 19, 2021, and December 30, 2021, see "Credit risk in relation to the Construction and Real Estate Sector" in Chapter "C" in the 2021 Annual Report.

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.

A circular issued on July 7, 2022, provides response to questions that had been raised regarding the manner of integrating entitlement loans in the approval in principle granted to the customer, with respect to the information provided to the customer for the purpose of considering the advisability of a premature repayment of the loan, and with respect to the contents of the online calculator. The updates entered into effect on August 31, 2022.

Sale of housing loans and cooperation regarding extension of housing loans. A circular was published on October 6, 2022, updating Proper Conduct of Banking Business Directive No. 329B, which states principles regarding transactions for the sale of housing loans and cooperation for extending housing loans, 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. Furthermore, part of the criteria for entering into sale transactions, on the basis of which, election would be considered selective, had been removed, such as: criteria for the interest determination track, terms for the repayment of principal and aim of the loan.

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

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

A final circular was published in the matter on August 15, 2022, according to which, starting with the report as of June 30, 2022, disclosure would be provided regarding the expected effect of the implementation of the Amendment. Spreading would be over a period of four quarters, would begin with the third quarter of 2022, in a way that in the second quarter of 2023, the effect would be fully reflected. In addition, Section 104 of Appendix "C" in the matter of risk weights in CVA measurement has been updated.

Computation of borrower group limitations. An update was published on April 7, 2022, that computations relating to derivative financial instruments shall be made according to Directive 203A instead of according to Appendix "C" to Directive 203. Moreover, Section 5 was updated in a way that allows deductions from liability that had not been included in the computation of the amount of exposure in respect of derivative financial instruments.

Reporting of large credit exposures. On August 4, a draft circular was published in which instruction 810E "Quarterly report on credit exposures" was canceled, and amendments were made to instruction 810D on the topic "Quarterly report on large credit exposures". For additional details, see "Large businesses Segment (Domestic operations)" in the 2022 Annual Report.

Credit risk management. A draft amendment of Proper Conduct of Banking Business Directive No. 311 was published on August 17, 2022, which contains a clarification according to which the exemption regarding the requirement that a corporation, upon approval of credit in an amount material to the corporation, should base itself also on semi-annual financial data as of June 30, shall apply also to a corporation forming a part of a foreign banking group, which is not required to publish semi-annual financial statements under the law applying to it, though it does prepare such statements for the purpose of consolidating such statements with those of the parent company.

Limitations on granting housing loans and the standardised approach – credit risk. A draft circular was published on October 2, 2022, regarding the amendment of Proper Conduct of Banking Business Directives Nos. 329 and 203. The draft is designed to regularize principles with respect to the granting of a loan comprising a reverse mortgage.

General information regarding credit risk quality (CRA)

The Bank's Strategy and policy with respect to credit risk management

Credit risk appetite principles

- The credit risk appetite shall be consistent with the business strategy, liquidity planning and the financial resources and capital planning of the banking corporation. Accordingly, when determining the risk appetite, taken into consideration are capital constraints and financial resources, the banking corporation's commitments, as well as the impact of potential stress events;
- The credit risk appetite will constitute the basis for determining the credit policy of the Bank and the subsidiaries, through the establishment of reciprocal relations/a dialog between the strategy units, the capital planning unit, the business functions and the risk management units at the Bank and the Group. The risk appetite also constitutes the basis for setting specific limits for the taking of credit risks;
- The Group shall determine restrictions on exposure to material activities involving high credit risk, which would help in diversifying in a proper manner the credit granting operations. The rules and restrictions reflect the risk level at which the Group seeks to operate;
- The Group will focus on activities in respect of which the required professional skills exist, on operations contributing to the utilization in full of synergies existing between companies in the Group, and on operations contributing to increased profitability and the optimal allocation of risk assets;
- The Group will recognize and manage the credit risks in all its products and operations.

Credit risk management policy

The credit risk management policy is aimed at establishing an infrastructure for credit risk management at the Bank and at the Group, in a manner that would contribute to attaining an adequate return for the risk taken (in risk adjusted terms), according to the determined risk appetite, while understanding the credit risk profile of the Bank and the Group and details of their areas of responsibility, of the functionaries at the Bank involved in the identification, measurement, monitoring and control processes regarding the credit risk that the Bank accepts. The risk management policy document is discussed and approved in each year by the Bank's Management and Board of Directors.
The criteria of the implementation format of the credit risk management policy, include, inter alia:

- **Identification, measurement and assessment** – identification of the credit risk factors relates to the whole array of operations, the purpose of which is to ensure that all the risk factors and their characteristics are fully identified in relation to every credit product and activity of the Bank. The risk factors that impact the level of credit risk stem, inter alia, from sectorial and geographic characteristics, product features, the borrower and the transaction, and the credit concentration.
- **Monitoring the credit risk exposure** – monitoring the exposure is an active process that is performed on an ongoing basis, and its essence is the tracking of the credit quality of specific exposures on the one hand and on the other hand, aggregative exposures at different levels, up to the level of the credit portfolio as a whole.
- **Information infrastructure and systems** – the information systems assist in identifying, monitoring, tracking and reporting the risks, and enable the gathering of the exposures and the risks indices in order to create the overall risk profile.
- **Assessment of the overall risk level** – the outcomes of the identification, measurement and monitoring processes serve as a basis to create a picture of the overall Group's risks, in which are set forth all the risk factors identified within the framework of the various processes, and the degree of each risk factor's sensitivity, both in a normal business situation and under stress tests.
- **Assessment of the effectiveness of credit risk management processes** – the Board of Directors and the Management ascertain the establishment of periodic processes for assessing the quality and effectiveness of the credit risk management processes, which relate to the whole array of assessment elements, in such a way as to enable tracking the development in the credit risk management processes over time and making comparisons between business lines.
- **Strength and crisis management** – Discount Group ensures its strength and financial stability even in various crisis situations, including business continuity situations, by instituting work routines and procedures designed to set out the obligations, the authorities and the responsibilities of office holders, the processes and the supporting infrastructure.

Core documents in the credit field

Core documents in the credit field include the credit risk appetite document and the Discount Group credit policy which includes the Group principles that determine the framework for the granting of credit, with the aim of creating a uniform credit risk concept in the Group, the Bank's standalone credit policy, the credit risk management policy document, as well as the procedures and methodology with respect to credit, comprising an integral part of the credit management framework at the Bank.
The credit policy of the Bank and of its subsidiaries is, among other things, intended to improve the quality of the credit portfolio, to diversify the portfolio, to limit its concentration and to spread out the risks inherent therein. The policy documents are discussed and approved by the Management and by the Board of Directors on an annual basis of each subsidiary company.
The Bank's credit policy addresses different areas and activities, including economic sectors, borrower groups and large borrowers, and particular attention is directed to areas in which unique credit exposure exists, such as: holding companies and capital transactions, leverage financing, the diamond sector, real estate sector, housing loans, acquisition groups and capital market players. In addition, the credit policy determines criteria and guidelines for the granting of credit in the different lines of operation, such as policies regarding complex foreign trade transactions, syndication and the sale of credit, for financial institutions, for activity with custodians, for banks and borrowers in less developed countries (LDC) and exposures to counterparties.

The credit policy includes internal limitations in addition to regulatory limitations imposed on banking corporations within the framework of directives of the Supervisor of Banks regarding, among other things, sectorial concentration, single borrower and borrower groups that are monitored on an ongoing basis.
The credit policy documents and the procedures and methodologies in the credit field include detailed instructions and rules regarding collateral, regarding the obtaining of collateral, treatment of the different collateral types and the rate of reliance thereon. As a general rule, the Bank grants credit to customers against collateral of different types, including liquid assets, fixed assets, different pledges and guarantees. To the extent possible, the collateral matches the credit it secures, as regards the period of the credit, currency of the loan, revolving credit. Assessment of the value of the collateral is performed periodically.
The credit policy of IDB Bank. The credit policy of the subsidiary, establishes rules for the granting of credit according to the following categories of concentration: type of industry, geographical distribution, exposure to large borrower groups, risk rating and the real estate portfolio, with the aim of distributing the risks inherent in the credit portfolio. In addition, the policy document determines limitations and/or targets within the framework of such concentration risks. Credit exposure and compliance with limitations are reported to the Board of Directors on a quarterly basis. The credit policy also determines the credit authorization hierarchy, and the duties of the business units and the control units relating to assessment, monitoring, measurement and management of the credit risk.
The credit policy of ICC determines the credit risk appetite, the risk management policy and the rules and limitations applying to the different activities of the company.

The organizational structure and formation of the credit risk management functions and the control functions

The organizational structure by means of which the credit risk is managed correlates with the risk management model that has been adopted by the Bank Group within the framework of the Base Document for Risk Management and includes the definition of authority and responsibility of the functions involved in the management of risk at the Bank – the Board of Directors, Management and three separate lines of defense.

First line of defense

- **Business units.** Various processes for the reduction of credit risk are performed within the framework of the business units through the economic and business analysis of applications for credit in order to evaluate the credit risk involved in the operations of the borrower, credit rating and the ongoing monitoring and control over the credit granted as well as the quality of the borrower. These are being conducted by the business managers and are controlled by the control units comprising a part of the first line of defense. Within the framework of such processes, the collateral provided is being assessed and revalued according to collateral procedures. The current survey of credit files includes a review of implementation of decisions taken by the credit committees, including documents related to credit transactions (loan agreements, pledge documents, compliance with terms and conditions, availability of current reporting by the customer, etc.).
  The control procedures are performed using irregularity reports and outstanding debt reports at various profiles. The aim of the control is to identify as early as possible defaults in customer accounts and to draw the attention of the business factors to the urgent need to correct any irregularities in their indebtedness.
- **Credit committees.** The Bank has determined a scale of credit authority for managers and the various credit committees, reaching up to the Board of Directors.
  Presented below is a list of the Bank's credit committees, as determined by the Board of Directors:
  - The credit committee of the Board;
  - The central credit committee headed by the Bank's President & CEO;
  - Division level credit committees (corporate and Banking Divisions);
  - Local credit committees (according to the business unit to which the customer belongs).

  The credit committees discuss and make decisions in matters of credit, both as regards to applications for new credit and as regards to existing indebtedness. Committee discussions include a review of the debtors, including their compliance with credit terms, changes in the profitability of credit, developments in their financial condition, evaluation of the level of exposure to changes in exchange rates, the debtor's credit rating, risk adjusted return etc.

The hierarchy regarding the authority to grant credit is according to Proper Conduct of Banking Business Directive No. 301, so that the authority of the Board of Directors for approval of credit shall focus on the approval of transactions which are exceptional in relation to the determined policy.

Control units exist at the various divisions, which include the following areas: control, collection, prohibition of money laundering compliance and the drawing of conclusions.

Presented below are the control units in the various divisions:

Banking Division:

- **Retail Credit Subdivision and the risk management, compliance and control department Subdivision** at the Banking Division are responsible for the monitoring and control of credit risk relating to customers of the Division, and include the following units:
  - **Credit control department** is responsible for monitoring and control processes relating to all customers of the unit and examines the credit portfolio, including recognition of vulnerable areas and the testing of exogenous effects on the credit portfolio, which, inter alia, includes the monitoring of sectorial development, control over proper sectorial classification, the management of the division's watch lists, management and coordination of the quarterly treatment process of problematic debts.
  - **The collection centers department** includes the debt monitoring department and the collection centers.
  - **The debt monitoring department** is responsible for the handling of debts showing signs of deterioration, and it conducts the current monitoring of accounts by means of the "red light" system. Such debts are passed by the branches for handling by the unit, in a manner allowing early treatment of accounts showing signs of trouble, by way of restructure or passing them on to the collection centers.
  - **Collection centers** handle cases passed on to the collection centers, including efforts to collect the debt prior to institution of legal proceedings against the customers, the passing on of the debt to legal treatment where no arrangement had been reached with the borrower, management and monitoring the handling of the case, definition of collection goals, formation of debt arrangements with borrowers, the handling of debt not through legal proceedings.
  - **The mortgages Subdivision**, in its operations, reports directly to the Head of the Division. Two units operate within the framework of the subdivision, engaged in the management of credit risk in the mortgages field, including maintaining the supervision and control operations in this field.

Corporate division:

- **Credit risk management wing** serves as the first line of defense for the operations of the corporate division. The wing includes the following units:
  - **Business control department.** A department, independent of the business units, which performs control and monitoring of the credit portfolio as well as current monitoring of all borrowers related to the Division, identification of weaknesses and high-risk borrowers and the timely reduction of risk exposure. The unit is responsible for managing a watch-list of performing borrowers showing negative symptoms, monitoring the implementation of decisions taken by the different committees, editing of reports, monitoring credit default and control of operational risks. A credit document control unit (CDC) and the divisional compliance unit operate within the framework thereof.
    The CDC Unit is responsible for regarding the existence and propriety of credit and collateral documentation and of borrower files, according to defined criteria;
  - **The divisional compliance unit** monitors and controls compliance and prohibition of money laundering activities in the Corporate Division, including the monitoring of material exposure in matters of compliance, prohibition of money laundering and cross-border risks;
  - **Credit analysis and underwriting department.** Its duties include, inter alia, analysis of the credit portfolio and of customers of the Corporate Division, both within the framework of the underwriting process prior to extending credit, and within the framework of current monitoring, sectorial reviews and reviews of borrower groups; drafting of operational reviews for the analysis of credit risks, monitoring and analysis of credits defined as vulnerable areas and reporting to Management and to the Board of Directors; In addition, the department deals with drafting the methodologies used, inter alia as tools for analyzing financial statements, repayment ability, credit reasonability for working capital, and their deployment among the business parties.

Moreover, an ongoing credit management department in the department is responsible for managing the divisional credit committees and the central credit committee, including the updating of the watchlist files prior to the committee meeting, validating the discussion and minutes of the committee and documenting the decisions in the Bank's systems.

- **The valuation unit,** provides professional and independent assessment of real estate proposed to the Bank as collateral and states its value for collateral purposes;
- **Analytics and reporting team** is responsible, inter alia, for the current monitoring intended to avoid deviation from restrictions applying to a single borrower/group of borrowers, and limitations applying to related parties and Officers, as well for the coordination of a part of the reports to the Bank of Israel.
- **The credit products operating department** is responsible for the management of credit products, including the supporting systems employed at the Bank, including the OTZAR system – an underwriting and credit management system at the Corporate Divisions at Discount Bank and at MDB.
- **The special credit department** is responsible for the handling of large problematic credit cases, mostly through legal proceedings, with the aim of reaching collection and debt repayment arrangements. The department includes a unit operating with the aim of reaching economic recovery possibilities for corporations, in order to avoid, to the extent possible, the need to institute legal proceedings.

- **The Commercial Banking wing** brings under it all the business centers' credit activity, including monitoring and identifying the development of weaknesses and risks, tracking customers for whom there is an assessment of an increase in the level of risk and supporting the business centers in directly handling customer weaknesses.

Counterparty credit customer exposures. The MO in the Financial Markets Division serves as the first line in monitoring counterparty credit customer exposures.

Second line of defense

The Risk Management Division includes a number of wings engaged in credit risk management:

Credit risk management wing. Four departments operate within the framework of the wing:

- **Policy and credit reporting department,** which, inter alia, is responsible for formation and updating of core documents relating to credit in cooperation with the risk management wing and the business functions, including risk appetite and the credit policy of the Discount Group, the standalone credit policy of the Bank and the credit risk management policy;
- Challenging the core documents relating to credit at the subsidiary companies;
- Current evaluation of the risk profile of the Group and of each of the subsidiary companies, quarterly reporting of credit risk and the monitoring of compliance with restrictions on the credit portfolio at the Bank and at the Group and KRI's;
- **Credit control department** responsible for the retroactive testing, with a risk based outlook, of the manner of credit risk management at all its stages, including the considerations of the professional factors which approve the granting of credit and the appropriateness of the current monitoring thereof, and to provide assessment as to the specific credit quality and the quality of the credit portfolio in general.
- **Opinion rendering department** prepares an independent opinion for credit transactions, is responsible for setting the ratings and classifications and for determining credit loss expenses. The department conducts also an examination of the effectiveness of the credit policy.
- **Problematic Debts Management Department** is responsible for the current process of classification and allowances, implementing the accounting approach and the Bank's procedures in the problematic debts field.

Risk management wing. Three departments operate in the credit field within the framework of the wing.

- **Credit portfolio management department** is responsible for developing business credit rating models, for updating, maintaining and supporting existing credit rating models, for defining credit rating methodologies, for monitoring and reporting credit risk in the business portfolio, for risk-adjusted pricing, for performing and analyzing RAROC calculations.
- **Retail models, capital and stress tests department** is engaged, inter alia, in the development and integration of models for the evaluation of retail credit risk, accompaniment and support of process for underwriting, pricing and monitoring performed at the Banking Division, assistance in the development and integration of advanced models for the rating of retail credit at the subsidiary companies, a recommendation for minimum capital adequacy ratios of the Discount Group and for the performance of stress testing.

- **The Market, Liquidity and Third-Party Risk Management Department** is responsible, inter alia, for counterparty credit, capital market participants, LDC policy, custodians and more. In addition, the department constitutes a second line in dealings with brokers and banks.

Supervision and evaluation wing within the framework of which operates, inter alia, the model risk management unit responsible for the validation of models, the monitoring of work plans for the implementation of recommendations stemming from the validation and evaluation of model risks.

Compliance and prohibition of money laundering, internal enforcement and consultancy control wing. The wing manager act as the Chief Compliance Officer. Among others, two units operate within the framework of the wing, as follows:

- **The prohibition of money laundering and the finance of terror unit** – is engaged in the application of the provisions of the Prohibition of Money Laundering Act, the Order and the provisions of Proper Conduct of Banking Business Directive No. 411 in the matter of ”prevention of money laundering and finance of terror and identification of customers”.
- **Compliance and internal enforcement unit** - responsible for outlining ways for the effective management of the compliance risk at the Bank and at the Group, in order to verify the implementation of the relevant regulation. The unit outlines the compliance risk management methodology at the Group level, as well as the risk management method in the subjects of administrative enforcement, privacy protection, competition laws and accessibility, including the formulation of a risk management policy in these subjects.
- **The Control over Consulting and Compliance Department** - is responsible for investment consulting and pension consulting controls and diverse regulatory controls that include prohibition of money laundering and terrorist financing, compliance, immediate reports, privacy protection and competition law.
- **Cross-border risk department** - constitutes the second line of defense and the leading factor in monitoring and controlling the development of cross-border risks at the Bank and its subsidiaries. In this framework, the unit is responsible for the implementation of the global regulations for managing declared money - the implementation of the FATCA regulation, including the regulation of American customers, the implementation of the AEOI (Automatic Exchange of Information) regulation, and the OECD CRS rules, reducing exposures in high-risk activities in cross-border activity and compliance with the QI agreement.

Third line of defense

Internal audit conducts independent audits of everything related to risk management processes and the quality of their management. Its duties include, inter alia, audit of credit risk conduct, rendering an independent assessment regarding the implementation of procedures and guidelines of the credit policy documents by the relevant units and office holders at the Bank, examination of data systems supporting the management and control of credit.

Relations between the credit risk management, risk control, compliance and internal audit functions

Credit risk management is conducted and controlled through the three lines of defense, which are subject to senior Management and the Board of Directors.

Monitoring processes at the credit divisions are conducted by the business functions, the control and compliance units, as well as by the functions responsible for operating and management of credit. These functions are, inter alia, responsible for verifying that relevant information is communicated between them, including at the stage of rating of the credit, and that adequate internal controls are in place, intended to reasonably ensure that all relevant information required for review of the debts has been taken into consideration in a proper manner.

The credit divisions in cooperation with the risk management division are expected to define in the credit procedures, methodologies and in the credit management policy document, a clear and uniform standard as regards the conduct of all functions at the Bank involved in the process of approval and management of the credit, including the business functions, the risk management units at the divisions and the functions approving credit.

The risk management division in the second line of defense, leads the formation of the credit policy and the risk appetite in cooperation with the business functions, is engaged in due diligence reviews and control over the identification and classification of problematic debts, examines and verifies the effectiveness of the processes, renders opinions as to the adequacy of the allowance and validates the different models.

Credit underwriting and management processes

The credit underwriting process at the Bank is defined by procedures, credit authority and work processes. The underwriting process is a structured one, which begins with the interface between the customer and the customer relation officer at the Bank, the writing of the application, analysis of the application, stage of approval of the application according to the credit authority, the actual granting of credit, followed by ongoing control of the borrower's file.

An economic and business analysis of the customer is performed as part of the approval of the credit designed to locate and evaluate credit risks inherent in his business. Furthermore, as part of the discussions held by the credit committee, it is being considered whether the approval of the credit reflects acceptance of a reasonable risk on the part of the Bank concurrently with profitability and an appropriate return.

The considerations for the granting of credit to a business customer are mostly based on purpose of credit and repayment ability, financial soundness, business position, burrower rating, and quality of collateral provided by the customer. An additional important parameter is the quality of the customer and past experience with him.

The consumer credit at the Bank is characterized by small amounts and a high distribution. In addition, use is made of analytic models for the purpose of risk rating and calculating the recommendation level for an automatic credit supplement. The models include models for rating existing customers (Credit Scoring), rating new customers (Application Scoring), calculating repayment capability and a red lights system for the swift identification of possible deterioration in a customer's position. In addition to automatic credit, decisions regarding the granting of consumer credit are taken under personal authority or by the relevant credit committee, according to the scope of credit.

Credit underwriting in the mortgage field is performed through a comprehensive examination of the borrower, with emphasis on his solvency, and an examination of the transaction, its purposes and the collateral pledged to secure the credit.

The Bank acts according to procedures that define criteria for identifying credits having a problematic potential, in order to ensure the ongoing monitoring of the quality of the credit portfolio, and where required, the classification of problematic debts and/or creation of allowances at the appropriate time. A process of classifying problematic debts and determination of allowances is made once a quarter by the Bank's Management, and in a manner that would reflect the risk level of the credit portfolio.

The monitoring process of the credit portfolio. The process includes:

- Identifying and locating borrowers having negative indications;
- Identification of customers whose financial condition and/or their ability to honor their obligations towards the Bank have deteriorated, and classifying them, in consequence, as "problematic debts" (debts under the definition of "under special mention", "substandard" and "non-accruing");
- Determining credit loss expenses that reflect the Bank's expected loss at a specific level. In determining the allowances, the Bank's Management relies on information at hand regarding the borrower, such as: financial soundness, and/or owner guarantees, scope and quality of the collateral held, estimate of the present value of the future cash flows of the debtor;
- Recording of allowances that reflect the Bank's expected loss at a group level. In determining the allowances, the Bank's management is based upon information at hand regarding the borrower, such as: their credit rating, the classification of the debt, segments, the lifetime of the loan, the scope and quality of the collateral and an assessment of the risk environment;
- A weekly review of developments in the scope of exposure and in the quality of credit to customers with a high credit exposure regarding OTC derivatives.

Credit underwriting process at IDB Bank. The credit policy states that the underwriting process shall begin with the business units that specialize in a particular segment of customers and act according to specific procedures. The credit risk management unit, which is subject to the chief risk officer in IDB Bank examines requests for credit and prepares an "opinion" on the essence of which, and tests, among other things, whether the credit exposure exceeds the various limitations determined by the credit policy.

Evaluation of credit risk at IDB Bank is based on an internal rating. The model is divided into two stages of analytical processes, Borrower Risk Rating and Facility Risk Adjustments.

Credit underwriting and management processes at ICC. ICC operates according to policy, procedures and work processes which define the underwriting principles, while using, inter alia, the data of the Credit Office, management and monitoring of the credit portfolio. Procedures for the handling of credit and collateral and the relevant information systems are updated on a regular basis with a view of improving credit management. The assessment of the credit risk at ICC is based primarily on automated statistical models of underwriting and rating.

Credit risk measurement and reporting systems

Assessment of the risks. The credit risk management concept of the Discount Group is based on advanced systems accepted around the world. Inter alia, the Group makes use of models (statistical and other), based on banking practices, financial data and qualitative questionnaires for the assessment of borrower's risk (probability of default – PD) and the credit losses stemming there from (expected loss given default – LGD).

Scope and characteristics of measurement and reporting systems. The Bank uses several systems supporting credit risk management, as follows:

- Computerized system for the management of credit facilities and for the management of borrower debt, which also enables following up on the volume of the credit file. The system covers all the customers of the Bank's Banking Division having indebtedness in excess of NIS 500 thousand. The system provides information regarding the status of credit and collateral of the borrower, credit facility, guarantees and financial covenants.
- Furthermore, the system supports the customer credit risk management and based upon models for the assessment of risk components (PD and LGD), which are based, among other things, on qualitative questionnaires, quantitative data and banking practice;
- A computerized system for credit scoring and providing credit recommendations for private customers;
- A computerized system for the management of collateral. The system documents all collateral, such as deposits, securities, pledges on real estate assets, fixed assets, securities and floating pledges. The system manages the value of the material collateral securing the debt;
- A computerized system for guarantee management;
- An information system used for assessing the profitability of a single portfolio and of a business unit;
- A computerized system for the computation of risk assets on a Group level, according to Basel guidelines;
- **The Otzar system (credit and attachments management system).** The system is used for the management of the process for underwriting and management of credit at the Corporate Division at the Bank and at MDB. The system has been integrated in all of the units of the Corporate Division at Discount and at the Commercial Division at MDB. The infrastructure that has been developed serves as a platform for reporting to the Supervisor of Banks regarding the credit field, and enables, at the present time, the real-time computerized monitoring of a part of the internal and regulatory limitations.

Description of the process of reporting credit risk to senior Management and the Board of Directors

An organized process of reporting to Management and the Board of Directors is in operation within the framework of the quarterly credit risk document of the Discount Group and the Bank (according to Proper Conduct of Banking Business Directive No. 311 – Credit Risk Management), in which are presented central changes in the field of credit risk management, which relate to all credit exposure, including: the scope and composition of the credit portfolio, operating segments, economic sectors, concentration of large borrowers and large borrower groups. Also examined is the quality of the credit portfolio according to the developments of credit rating of borrowers, the volume of the problematic debt and the credit losses expense with reference to changes in the quality of credit management, as well as exposures of the material subsidiary companies. Furthermore, a report is submitted with respect to compliance with limitations applying to the credit portfolio of the Discount Group, which also relates to compliance with restrictions of the Supervisor of Banks and with goals and internal restrictions of the Bank and of the Group, for the purpose of follow-up and control over compliance with the credit policy of the Bank and over the level of risk which the Group wishes to attain according to its risk appetite.
In addition, an annual review of the credit risk profile is conducted within the framework of the ICAAP process.

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

Changes in the non-accruing debt balance and in the balance of restructured troubled debts (CR2)

For details regarding the balance of non-accruing debts and the movement therein, see “Credit Risks” under “Risks review” in the Board of Directors and Management Report and Note 31 to the financial statements as of December 31, 2022.

Additional disclosure regarding the credit quality of credit exposures (CRB)

The Bank implements the Public Reporting Directives that require full adoption of the generally accepted accounting principles at banks in the United States with regard to allowances for current expected credit losses (CECL).

Credit Risks Measurement and Reporting. The Bank bases the credit risk concept according to worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management.

The Bank has established procedures for the identification of problematic credit and the classification of debts as non-accruing debts. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or non-accruing.

"In arrears" and "non-accruing" exposures

A debt is classified as non-accruing when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A commercial debt, the contractual outstanding balance of which amounts to NIS 1 million or over, is classified as non-accruing debt where the amounts of principal or interest in respect thereof are in arrears for 90 days or over, except where the debt is both well secured and in the process of collection. Housing loans are classified as non-accruing debts where the amounts of principle or interest for 90 days or over. Furthermore, a debt that had undergone restructure of a troubled debt and does not comply with the terms for accrual of interest income is classified as Non-accruing debt. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account, starting with the date on which a debt is classified as a non-accruing debt, the debt is treated as a debt that does not accrue interest income.

The differences between the definition of arrears and default for accounting purposes and their definition for regulatory purposes. Presented below are the differences between the definition of "arrears" and an "non-accruing debt" for accounting purposes and the definition of "loans in arrears" for the purposes of measuring the capital adequacy and for regulatory purposes:

- A restructured debt which abides by the conditions for accruement of interest income, may be considered as a substandard debt or under special mention or performing for accounting purposes, while for regulatory purposes such a debt shall be treated as a performing debt;
- A debt in arrears of 90 days or over shall include for regulatory purposes also non-accruing debts as well as substandard accruing debts in the collective classification, while loans in arrears for accounting purposes are differentiated by the length of the default period of 30-89 days and 90 days or over.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

In addition to that, in certain cases, the Bank concludes that, within the framework of the arrangement, the borrower had been granted a waiver, even if the arrangement included a raise in the contractual interest rate.

The Bank does not classify a debt as a restructured troubled debt if the restructure leads to a negligible delay in repayment, considering the frequency of the repayments during the contractual period of repayment and the expected original maturity period of the debt. In this respect, where several arrangements involving changes in the terms of the debt had been made, the Bank takes into account the cumulative effect of the prior restructures for the purpose of determining whether the delay in repayment, stemming from the restructuring of the debt, is negligible. As a general rule, restructure leading to a delay in repayment of 90 days or over, as compared with the agreement, shall be considered restructure leading to a delay in repayment that is not negligible.

Techniques used to determine allowances for credit losses and for impairments of available-for-sale bonds of an other than temporary nature

Allowances for credit losses. Within the application of the accounting principles accepted by US banks with respect to ”allowances for expected credit losses (CECL)”, the Bank has formed a methodology, models and a new technological application for the determination of the allowances for credit losses. (See Note 1 D 4a to the financial statements).

The quarterly process for the review of the appropriateness of classifications and of expenses for credit losses in the Bank is an orderly process, which includes specific discussions at the level of the business divisions and at the level of the Bank’s Management (problematic debts committees), as well as discussions regarding the adequacy of the group allowance. In this framework, the Chief Accountant heads ”the committee for the review of the appropriateness of the allowances for credit losses – independent review”, in which all relevant factors participate, including the business, comptroller, SOX unit, internal audit and risk management factors.

The committee’s task is to assess, from the quantitative and qualitative aspects, the quarterly process of handling problematic debts, with reference, among other things, to the appropriateness of the specific and group expense, as well as the appropriateness of the control measures applied in reviewing the classification and allowance processes. As part of the discussions regarding the appropriateness of the allowances, processes and controls are being reviewed, as well as different indices in comparison with prior periods at the Bank’s and the Group’s levels, and in comparison to the industry as a whole, indices that constitute an additional supporting indication for the review of the appropriateness of the processes and results obtained.

For the purpose of determining the group allowance, various business and automated processes are carried out and the Bank has a quarterly process for determining the group allowance (hereinafter: “the Group Allowance Determination Committee”). The three elements of the allowances are presented at the committee: basis, macro, Q factor, and a discussion takes place regarding the components of the Q factor allowance (qualitative adjustments), following which the components and the group allowance in its entirety are approved within the framework of the Committee.

The decision is taken after examining the results of the quantitative models, the macro model (after holding a discussion regarding an analysis of the economic background to the economic trends) and the additional data supporting the decision (examining the total allowance by segments, the change in the components of the base allowance (Remaining Life, PD, LGD), analyzing movement in the allowance by classifications and by the allowance’s components (balance, EL, macro and Q factor) examining large borrowers, and so forth).

Impairment of available-for-sale bonds. Management of the Bank and the relevant subsidiary companies test at each reporting period, according to accounting principles accepted by US banks, whether impairment in the value of the bond is attributable to credit loss as well as the amount thereof.

For additional details, which include the tests requiring recognition of credit losses, see Note 1 D 4a to the financial statements as at December 31, 2022.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	December 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	1,673	1,583	20	70	1,671	1,390	20	8	–	2	29
Mining & Quarrying	393	392	–	1	392	299	–		(3)	(2)	7
Industry	17,078	16,278	489	311	16,661	9,566	488	176	31	58	256
Construction and Real Estate - Construction	[6]49,159	47,712	1,219	228	[6] 49,138	22,853	1,219	278	153	24	493
Construction and Real Estate - Real Estate Activity	16,000	15,486	362	152	15,920	14,049	343	219	61	2	325
Electricity and Water	6,840	6,811	13	16	6,051	3,844	13	1	31	–	104
Commerce	27,029	26,011	490	528	26,805	21,446	487	119	(42)	9	316
Hotels, Hotel Services and Food	2,135	1,964	114	57	2,094	1,785	114	12	(19)	(1)	43
Transportation and Storage	6,856	6,453	271	132	6,679	5,505	271	113	(16)	5	128
Communication and Computer Services	2,685	2,501	99	85	2,648	1,705	99	49	12	–	51
Financial Services	25,396	24,947	5	444	20,933	14,144	5	1	(4)	21	94
Other Business Services	8,569	7,971	142	456	8,547	6,047	142	28	(14)	45	145
Public and Community Services	11,741	11,157	484	100	11,731	10,193	484	130	69	(3)	172
Total Commercial	**175,554**	**169,266**	**3,708**	**2,580**	**169,270**	**112,826**	**3,685**	**1,134**	**259**	**160**	**2,163**
Private Individuals - Housing Loans	73,227	72,267	313	647	73,227	64,891	313	228	61	5	271
Private Individuals - Other	73,371	70,651	481	2,239	73,367	32,866	481	81	163	115	818
Total Public	**322,152**	**312,184**	**4,502**	**5,466**	**315,864**	**210,583**	**4,479**	**1,443**	**483**	**280**	**3,252**
Banks in Israel	2,634	2,634	–	–	1,512	1,482	–	–	–	–	1
Israeli Government	27,275	27,275	–	–	912	912	–	–	–	–	–
Total Lending Activity in Israel	**352,061**	**342,093**	**4,502**	**5,466**	**318,288**	**212,977**	**4,479**	**1,443**	**483**	**280**	**3,253**

For footnotes see next page.

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

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

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 251,036 million, NIS 43,001 million, NIS 857 million, NIS 2,363 million, NIS 122,149 million, respectively.

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

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

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

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

(6) Including acquisition groups in an amount of NIS 519 million.

(7) Including mortgage backed securities in the amount of NIS 6,724 million, issued by GNMA and in the amount of NIS 239 million, issued by FNMA and FHLMC.

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

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 9,407 million.

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

(11) The balance of commercial debts includes housing loans in the amount of NIS 218 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

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]	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 loss
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,534	1,446	19	69	1,524	1,236	19	5	2	1	19
Mining & Quarrying	380	347	32	1	369	220	32	31	2	-	7
Industry	15,204	14,313	526	365	15,079	9,010	526	184	(18)	36	282
Construction and Real Estate - Construction	[6] 43,155	42,411	639	105	[6] 43,135	20,147	639	208	43	35	351
Construction and Real Estate - Real Estate Activity	14,237	13,853	356	28	14,186	12,175	355	92	(15)	(5)	213
Electricity and Water	5,241	5,203	13	25	4,546	2,935	13	3	(3)	3	21
Commerce	22,892	21,938	532	422	22,451	18,014	532	131	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	2,305	1,976	291	57	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	6,118	5,073	382	163	(19)	18	139
Communication and Computer Services	2,400	2,311	52	37	2,366	1,657	52	43	(58)	(27)	77
Financial Services	22,375	22,294	54	27	19,613	13,924	54		(12)	(6)	91
Other Business Services	8,228	7,563	255	410	8,180	5,823	255	91	(67)	6	163
Public and Community Services	11,004	10,842	62	100	10,998	9,313	62	7	(21)	(2)	35
Total Commercial	**155,314**	**150,356**	**3,213**	**1,745**	**150,870**	**101,503**	**3,212**	**1,015**	**(407)**	**7**	**1,870**
Private Individuals - Housing Loans	63,655	[12]62,679	275	[12]701	63,655	53,650	275	-	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	67,429	30,200	524	72	(169)	38	765
Total Public	**286,406**	**275,650**	**4,012**	**4,020**	**281,954**	**185,353**	**4,011**	**1,087**	**(570)**	**51**	**2,890**
Banks in Israel	2,549	2,549	-	-	1,348	1,300	-	-	-	-	-
Israeli Government	28,893	28,893	-	-	1,659	1,131	-	-	-	-	-
Total Lending Activity in Israel	**317,848**	**307,092**	**4,012**	**4,020**	**284,961**	**187,784**	**4,011**	**1,087**	**(570)**	**51**	**2,890**

For footnotes see next page.

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

	December 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									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 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	39	(45)	–	55
Construction and Real Estate - Construction	142	142	–	–	142	123	–	–	(29)	(29)	1
Construction and Real Estate - Real Estate Activity	11,811	10,065	790	956	11,552	10,324	751	70	(52)	(2)	158
Electricity and Water	892	892	–	–	540	351	–	–	1	–	1
Commerce	9,403	8,843	435	125	9,280	6,549	435		40	27	66
Hotels, Hotel Services and Food	1,752	518	981	253	1,738	1,671	981	185	(49)	–	50
Transportation and Storage	976	976	–	–	814	793	–	–	(2)	–	6
Communication and Computer Services	354	351	3	–	218	154	3	3	9	9	1
Financial Services	10,706	10,600	41	65	2,302	1,607	41	–	(4)	–	8
Of which: Federal agencies in the U.S.[7]	7,031	7,031	–	–	–	–	–	–	–	–	–
Other Business Services	901	825	74	2	821	538	74	–	–	–	5
Public and Community Services[8]	4,772	4,163	408	201	4,225	3,889	406	–	5	–	35
Total Commercial	**47,653**	**42,946**	**2,804**	**1,903**	**36,791**	**29,216**	**2,763**	**297**	**(127)**	**5**	**388**
Private Individuals - Housing Loans	299	292	5	2	299	294	5	–	–	–	3
Private Individuals - Other	2,059	2,018	38	3	2,058	1,333	38		(3)	–	8
Total Public	**50,011**	**45,256**	**2,847**	**1,908**	**39,148**	**30,843**	**2,806**	**297**	**(130)**	**5**	**399**
Banks Outside of Israel	4,442	4,442	–	–	2,495	2,412	–	–	–	–	–
Governments Outside of Israel	6,420	6,420	–	–	1,533	1,533	–	–	7	–	22
Total Lending Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**43,176**	**34,788**	**2,806**	**297**	**(123)**	**5**	**421**
Total	**378,721**	**363,210**	**6,859**	**5,928**	**328,137**	**222,572**	**6,817**	**1,384**	**(693)**	**56**	**3,311**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 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 for Maof Market operations.

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

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

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

(6) Including acquisition groups in an amount of NIS 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 according to the Bank's policy of the Bank.

(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 98% of the exposure as of December 31, 2022, is to financial institutions rated "A-"rating or higher, compared with about 94% as of December 31, 2021. For additional details, see the 2022 Annual Report.

Credit exposures according to remaining maturity period

General. The exposures presented below represent the anticipated future cash flows according to the maturity period in respect to balance-sheet credit risk and off-balance-sheet credit risk (apart from off-balance-sheet credit risk arising from derivative instruments) according to the periods that are being used by it for the purpose of measuring the allowance for credit loss. Notwithstanding the above, cash flows in respect of available-for-sale bonds and trading bonds are stated according to the rules used for the preparation of Note 33 to the financial Statements regarding "Assets and Liabilities according to Currency and Maturity Periods". Furthermore, assets in respect of derivative instruments were classified according to the principles applied in the preparation of Note 28 to the financial statements, "Derivative Instrument Activity scope, credit risk and repayment dates".

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years up to 15 years	over 15 years	Total	Effective average duration
			in NIS millions			
			December 31, 2022			
Balance-sheet credit exposure:						
Commercial	78,572	58,269	11,269	22,444	170,554	3.3
Private Individuals -Housing Loans	5,519	20,351	27,984	41,773	95,627	11.2
Private Individuals -Other	21,137	13,853	339	1,301	36,630	1.3
Assets for derivative instruments	11,330	2,511	366	1,197	15,404	1.8
Total Public	**116,558**	**94,984**	**39,958**	**66,715**	**318,215**	**5.4**
Banks and Governments	14,275	19,026	2,796	13,070	49,167	4.3
Total Balance-sheet credit exposure	**130,833**	**114,010**	**42,754**	**79,785**	**367,382**	**5.3**
Of which, bonds	8,448	18,740	8,404	16,818	52,410	4.1
Total off-balance-sheet credit exposure	**76,427**	**49,083**	**12,408**	**-**	**137,918**	**1.8**

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	No fixed maturity date	Total
			in NIS millions		
			December 31, 2021		
Balance-sheet credit exposure:					
Commercial	68,497	51,751	29,040	1,169	150,457
Private Individuals -Housing Loans	4,300	15,372	48,771	27	68,470
Private Individuals -Other	19,388	12,139	924	95	32,546
Assets for derivative instruments	4,166	1,233	748	-	6,147
Total Public	**96,351**	**80,495**	**79,483**	**1,291**	**257,620**
Banks and Governments	13,766	28,242	25,163	-	67,171
Total Balance-sheet credit exposure	**110,117**	**108,737**	**104,646**	**1,291**	**324,791**
Of which, bonds	3,998	16,393	27,481	-	47,872
Total off-balance-sheet credit exposure	**75,188**	**27,965**	**5,429**	**16,089**	**124,671**

Distribution of exposures according to main geographical areas and problematic debts according to main geographical areas

The data presented above, within the framework of "Total credit risk according to economic sectors on a consolidated basis" comprise also disclosure regarding the distribution of exposure and of problematic debts according to principal geographic areas.

Exposure to Foreign Countries - Consolidated

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of capital, the lower of the two – December 31, 2022[1]

	December 31, 2022												
	Balance sheet exposure[2][7]									Off-balance sheet exposure[2][3][7]			
	Across the border balance sheet exposure			Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure[2]	
The Country	To governments[4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Non-accruing debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
	In NIS millions												
United States	5,196	1,967	2,370	40,374	31,476	8,898	18,431	2,085	83	9,748	255	2,922	6,611
PIGS[5]	-	2	7	-	-	-	9	3	3	235	-	3	6
Other[7]	296	1,959	3,927	-	-	-	6,182	36	36	[6] 8,244	-	3,770	2,412
Total exposure to foreign countries	**5,492**	**3,928**	**6,304**	**40,374**	**31,476**	**8,898**	**24,622**	**2,124**	**122**	**18,227**	**255**	**6,695**	**9,029**
Of which - Total exposure to LDC countries	96	37	280	-	-	-	413	-	-	162	-	206	207

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and Non-accruing debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 2,662 million and Germany – an amount of NIS 2,223 million.

(7) Balance sheet and off-balance sheet credit risk for derivative instruments is presented after credit risk mitigation (see Note 1 E 2 to the financial statements).

The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower – December 31, 2022

As of December 31, 2022 the Bank had no such exposure.

C. Information regarding balance-sheet exposure to foreign countries having liquidity problems, for the year ending December 31, 2022

1. Information regarding balance-sheet exposure to foreign countries

A balance sheet exposure of NIS 31 million exists at December 31, 2022, in respect of countries having liquidity problems.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2022 the Bank had no such exposure.

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's capital, the lower of the two - December 31, 2021[1]

	December 31, 2021												
	Balance sheet exposure(2)(7)									Off-balance sheet exposure(2)(3)			
	Across the border balance sheet exposure			Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
The Country	To governments(4)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction for local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
	In NIS millions												
United States	3,273	2,044	3,085	37,939	28,891	9,048	17,450	2,066	201	7,805	170	3,786	4,616
PIGS(5)	-	4	15	-	-	-	19	-	-	155	-	5	14
Other	365	3,378	4,029	-	-	-	7,772	36	35	(6) 6,910	-	5,111	2,661
Total exposure to foreign countries	**3,638**	**5,426**	**7,129**	**37,939**	**28,891**	**9,048**	**25,241**	**2,102**	**236**	**14,870**	**170**	**8,902**	**7,291**
Of which - Total exposure to LDC countries	103	46	342	-	-	-	491	-	-	129	-	223	268

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(4) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 2,471 million and Germany – an amount of NIS 2,539 million.

The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount)

B. Information regarding countries the overall exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower - December 31, 2021

As of December 31, 2021 the Bank had no such exposure.

C. Information regarding the balance-sheet exposure to foreign countries having liquidity troubles for the year ended December 31, 2021

1. Information regarding balance-sheet exposure to foreign countries

A balance sheet exposure of NIS 44 million existed at December 31, 2021, in respect of countries having liquidity problems.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2021 the Bank had no such exposure.

For details regarding the movement in the balance of the allowance for credit losses, see Notes 13 and 31 to the financial statements as of December 31, 2020. For details regarding the aging (arrears) of credit exposure in arrears, see Note 31 to the financial statements as of December 31, 2020. For details regarding restructured credit exposure, see "Credit Risks" under "Risks review" in the Board of Directors and Management Report and Note 31 to the financial statements as of December 31, 2020.

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

Credit risk mitigation

General qualitative disclosure regarding the credit risk mitigation. According to the Basel guidelines, banking corporations may obtain relief from capital requirements with respect to usage of methods of credit risks mitigation (CRM), subject to legal certainty. Legal certainty requires, among other things, that all documents securing a transaction, setoff documents, guarantees, etc. shall be binding on all parties involved and may be legally enforceable in all relevant judiciary fields.

Collateral management and control processes. Reflected in the credit policy of the Discount Group, are central principles regarding the treatment of collateral. A further expansion of the manner of treatment and the management of collateral is contained in the internal procedures of each company in the Group, which comprise an integral part of the framework for the treatment and management of collateral. Management and control processes are performed by the different control units, as well as in the Legal Advisory Division, as mentioned above.

Issue of credit-linked debt notes. The Bank issued credit-linked debt notes (CLN), a product recognized as a qualified financial collateral, which enables the release of risk assets in respect of credit exposure, as well as comprising a deductible collateral in computing customer indebtedness according to Proper Conduct of Banking Business Directive No. 313.

Purchase of a policy insuring against credit risk relating to guarantees under the Sale Act and performance bonds. The Bank and subsidiary companies in the Group purchased policies insuring against credit risk related to Sale Act guarantees and Performance bonds, an action reducing risk assets by the transfer of credit risk to reinsurers abroad.

Purchase of a credit risk insurance policy with respect to the financing of land for building projects. The Bank has purchased a credit risk insurance policy with respect to the financing of land for building projects, a move that allows a reduction in risk assets in view of the transfer of the credit risk to foreign reinsurers.

credit risk insurance policies amounted to a total of NIS 31,737 million as of December 31, 2022, compared with NIS 25,608 million as of December 31, 2021.

The mitigation of credit risk relating to different entities. The Bank's policy is to enter into transactions in financial derivatives only with entities with which an ISDA agreement had been signed. This agreement mitigates credit risk by permitting the Netting of liabilities and mutual demands stemming from over the counter derivative transactions in cases of insolvency of the counterparty.
The credit risk applying to derivatives is mitigated by means of collateral. The transfer of collateral in agreements with banks engaged in significant derivative activity is regularized by Annex CSA (Credit Support Annex) to the ISDA agreement. Deviations in this matter are brought before the Board of Directors for approval.
IDB Bank transacts business only with entities with which ISDA agreements had been signed.
MDB applies off-balance sheet netting with respect to transactions in derivative instruments with entities with which netting agreements had been signed that comply with ISDA rules. Most entities active in derivative instrument transactions have signed the ISDA agreement.
The mitigation of clearing risks. The clearing of derivative transactions with foreign banks and financial institutions constitutes the main source for the Bank's exposure to clearing risks. In order to reduce, to the extent possible, the clearing risk inherent in transactions of this kind (according to the type of transaction and the currency thereof), the Bank uses the services of an international settlement system (CLS – Continuous Linked Settlement), serving as a neutral broker, who concurrently transfers the payments by the two parties to the transaction to each of the parties to the transaction, thus finalizing the transaction.

Mitigating the risk in respect of credit concentration

Concentration risk is the risk of a material financial loss stemming from the lack of decentralization in the credit portfolio. Concentration risk may arise also as a result of risk factors having high correlation. Such correlation may be found in the direct exposure to borrower groups, to economic sectors, to geographical areas, to counterparties having correlated performance, and to collaterals having high correlation. The concentration risk may intensify the damage caused in times of crisis.
Spreading of the credit risk is reached, among other things, by the spreading of the credit portfolio over a large number of borrowers/groups of borrowers in various economic sectors and industries.
Mitigating the credit risk in respect of the concentration of borrowers/groups of borrowers. With a view of assessing credit risks at the Group's level, the Bank holds an ongoing monitoring and follow-up of exposure to large borrowers/groups of borrowers with indebtedness exceeding 10% of the Bank's equity and compliance with the Bank of Israel limitations and within internal limitations determined by the Bank. In addition, the Bank conducts surveys and holds periodic discussions with respect to the largest in the Group borrower groups.
The Bank complies with the Bank of Israel limitations in respect of a single borrower and in respect of the large borrower groups.
The limitations relating to borrower/borrower groups concentration, have been updated to the requirements of Proper Conduct of Banking Business Directive No. 313 in the matter of limitations on the indebtedness of a borrower and of a group of borrowers.
Mitigating the credit risk in respect of concentration according to economic sectors. The Bank performs industry surveys of various economic sectors as well as current surveys of the situation of the economic sectors in Israel in order to evaluate the credit risk at the industry level.
Within the framework of the individual application for credit, an analysis of the economic sector of the borrower is performed and it is examined whether the application is in line with the credit policy according to economic sectors. The Bank complies with the Bank of Israel limitations regarding economic sectors.
Mitigating credit risk in respect of holding companies and transactions for the financing of acquisition of means of control in them. The Group, and mostly the Bank, have granted credit to holding companies and capital transactions for the financing of means of control. The principal repayment ability of the loan is based upon the cash flows of the active investee companies, which is transferred to the holding companies by way of dividends, management fees and repayment of shareholders' loans.
Due to the high dependence of the repayment ability of the investee companies, held directly or indirectly by the holding company, on the quality of the collateral, the credit granted to holding companies and transactions for the financing of acquisition of means of control defined as an area having a high risk profile.
The credit policy includes internal limitations, applying to this segment.

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								
	December 31, 2022								
Debts, excluding bonds	200,019	43,577	18,592	34,814	9,829	8,763	8,763	-	-
Bonds	39,334	-	-	-	-	-	-	-	-
Total	**239,353**	**43,577**	**18,592**	**34,814**	**9,829**	**8,763**	**8,763**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	1,623	1,104	632	189	27	915	605		
	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		

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

Qualitative disclosures regarding banking corporations' use of external credit ratings in the standardized approach to credit risk (CRD)

Credit risk according to the standardized approach

The risk weighting with regard to the credit exposures is performed on the basis of the standardized approach. According to this approach, the weightings of the risk depend on the type of exposure and, in some instances, on the credit ratings that relate to them.

The Bank and MDB rely on the credit ratings of S&P company, a recognized international ratings agency (ECAI), as the sole rater for the purpose of weighting the risk exposures. IDB Bank makes use of ratings from a number of international rating agencies – Fitch, Moody's and S&P.

Use of the aforesaid ratings is done in relation to the following credit exposures: loans to governments, deposits with banks and investments in securities.

The Bank attributes the various credit exposures to risk groups according to the standardized mapping published by the Supervisor of Banks.

The Bank makes use of public credit ratings, mainly in matters pertaining to investments in securities, which have been rated specifically by a recognized rating agency. The risk weighting attributed to the security is based on the public rating given to it.

Standardized approach – credit risk exposure and credit risk mitigation effects (CR4)

Exposure to credit risk and effects of credit risk mitigation

	Exposure before CCF and CRM		Exposure after CCF and CRM		RWA and RWA density	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	RWA	RWA density
	in NIS millions					In %
	December 31, 2022					
Types of assets						
Sovereigns, their central banks and national monetary authority	97,966	366	97,758	36	421	0%
Public sector entities (PSE) which are not central governments	9,220	1,324	10,605	883	2,429	21%
Banks (including multilateral development banks)	4,460	347	6,857	1,192	1,673	21%
Securities corporations	88	2,903	49	577	125	20%
Corporations	112,248	74,873	104,317	25,121	119,032	92%
Retail exposure to individuals	33,227	41,908	30,443	3,907	25,798	75%
Loans to small businesses	15,461	7,312	13,208	1,222	10,827	75%
Secured by residential property	65,082	8,431	65,074	1,327	35,371	53%
Secured by commercial real estate	4,658	125	4,640	81	4,721	100%
Loans in arrears	2,695	435	2,126	109	3,129	140%
Other assets	10,386	847	10,386	424	9,711	90%
Total	**355,491**	**138,871**	**345,463**	**34,879**	**213,237**	
	December 31, 2021					
Types of assets						
Sovereigns, their central banks and national monetary authority	92,158	542	92,834	35	180	0%
Public sector entities (PSE) which are not central governments	9,059	1,642	10,389	882	2,443	22%
Banks (including multilateral development banks)	4,389	644	6,913	1,073	1,656	21%
Corporations	98,568	65,207	90,757	21,428	102,581	91%
Retail exposure to individuals	30,732	37,720	27,836	3,636	23,638	75%
Loans to small businesses	15,156	6,934	12,691	1,166	10,399	75%
Secured by residential property	53,682	10,042	53,647	1,120	29,098	53%
Secured by commercial real estate	4,289	85	4,269	48	4,317	100%
Loans in arrears	2,664	465	1,783	119	2,454	129%
Other assets	9,578	655	9,578	327	8,319	84%
Total	**320,310**	**125,270**	**310,730**	**30,010**	**185,127**	

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

Exposure 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								
	December 31, 2022								
Sovereigns, their central banks and national monetary authority	97,390	52	–	–	–	–	232	120	97,794
Public sector entities (PSE) which are not central governments	1,756	8,242	–	1,419	–	–	71	–	11,488
Banks (including multilateral development banks)	–	7,925	–	73	–	–	51	–	8,049
Securities corporations	–	626	–	–	–	–	–	–	626
Corporations	–	10,106	–	5,988	–	–	111,997	1,348	129,439
Retail exposures for private individuals	–	–	–	–	–	34,208	142	–	34,350
Loans to small businesses	–	–	–	–	–	14,415	15	–	14,430
Secured by residential property	–	–	16,174	21,297	19,630	8,066	1,234	–	66,401
Secured by commercial real estate	–	–	–	–	–	–	4,721	–	4,721
Loans in arrears	–	–	–	–	–	–	445	1,790	2,235
Other assets	1,864	37	–	–	–	–	7,319	1,590	10,810
Of which: for shares	–	–	–	–	–	–	612	1,142	1,754
Total	**101,010**	**26,988**	**16,174**	**28,777**	**19,630**	**56,689**	**126,227**	**4,848**	**380,343**
	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: for shares	–	–	–	–	–	–	632	990	1,622
Total	**96,311**	**28,165**	**14,455**	**19,987**	**13,396**	**53,565**	**112,125**	**2,736**	**340,740**

Additional credit risk information that is not included in the third pillar disclosure requirements

Additional details regarding the credit risks – including: quality of the credit and problematic credit risk; credit exposure to foreign financial institutions; credit risks in housing loans; credit risk of private individuals (excluding housing credit risk); credit risk in relation to the construction and real estate sector; credit risk in respect of leveraged finance – presented in Chapter C of the Directors and Management Report regarding "Risks review" and in Note 31 to the financial statements.

Counterparty credit risk

Qualitative disclosure related to counterparty credit risk (CCRA)

General disclosure regarding exposure related to counterparty credit risk

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction.
Exposure related to counterparty credit risk refer to activity in derivative financial instruments, the finance of securities transactions (SFT) and REPO transactions.
The Bank's operations in derivative financial instruments. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein.
The Bank's policy as regards the management of counterparty credit risk is based on the counterparty credit risk management policy document and clearing, which is brought for approval of the Board of Directors at least once every year.
Exposure of the Group to counterparty credit risk arises both with respect to banks and international financial institutions and with respect to customers.
The framework of exposure to international financial institutions is approved at Group level on the basis of an internal model. The approved framework is allocated by the Bank among the companies in the Group.
Activity in derivatives is conditional on the prior approval of the credit facility that determines limitations on counterparty exposure. The framework of exposure to customers is approved according to credit approval authorizations.
Exposure of central counterparties (CCP). The Bank works with a clearing house (LCH), which is a Qualifying Central Counterparty that meets the international standards for financial infrastructures.
The monitoring of counterparty credit risk exposure is performed as follows:

- Procedures exist for the identification and measurement of the risk, making an extensive use of designated models, the allocation of facilities for operation, and the measurement of the extent of their use.
- In the event of finding that a borrower has an exposure/sensitivity to changes in exchange rates and/or prices of commodities, the business function is required to examine the extent of the customer's sensitivity from an overall perspective, while taking into consideration the array of criteria requiring the customer's inclusion in the list of sensitive customers and weighing and quantifying the sensitivity to changes in the exchange rates and/or the prices of commodities embodied in its activity.
- A periodic process exists for the testing of model coefficients, which are being updated according to the level of fluctuations in the financial markets and the Bank's risk appetite (updating of the "Add-On" coefficients, Value coefficients regarding collateral in the model applying to heavy traders on the capital market).
- A control layout exists that, inter alia, includes limitation and warning lines, determined according to the Bank's risk appetite levels. The effectiveness of restrictions and alert lines are being periodically examined by risk management (second line of defense), while modifying them to the Bank's risk appetite and the quality of counterparties.
- According to Proper Conduct of Banking Business Directive No. 330, the Bank manages the activity of customers operating on the capital market and in OTC activity (securities and derivative instruments), including speculative customers.

  In accordance therewith, the Bank maintains a current and periodic reporting system analyzing, inter alia, the activity in OTC derivatives, activity in securities, the development of risk and analysis of changes in exposure and in the level of risk of the customer. Furthermore, the activity of speculative customers is managed against full and liquid collateral, with defined risk appetite and additional limitations respectively.
- Current reporting layouts to business and control functions exist with respect to deviations and to the proximity to full utilization of limitations.

All transactions relating to counterparty credit risk, may be subject to credit risk mitigation according to the credit authority ranking. The methods approved for credit risk mitigation (CRM) include:
- Net setoff agreements (ISDA agreements or other agreements approved by the Bank's legal advisory department); Collateral;
- Stop-loss agreements permitting the Bank to close outstanding positions;
- Mutual termination of transactions between the parties.

Drafts and Instructions published during 2022

Directive regarding the standardised approach for measuring counterparty credit risk exposures. In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardised approach for measuring counterparty credit risk exposures SA-CCR". On December 1, 2021, the Supervisor of Banks published the Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk according to the SA-CCR. The applicable date as from July 1, 2022.
The said approach replaced the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the CEM approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part as a derivative of accepted netting agreements (such as CSA).
On March 15, 2022, an update was published to Directive 203A, which was published in December 2021, the essence of which are clarifications to issues raised (Q&A).
For details regarding the impact of the implementation of the new directive, see "Capital and Capital Adequacy" in the 2022 Annual Report.

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

	Replacement cost	Potential future exposure	Alpha coefficient used for the computation of the regulatory exposure at default (EAD)	EAD after CRM	RWA
	December 31, 2022				
	in NIS millions				
Current exposure method	2,379	2,700	1.4	7,110	2,952
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	-	3,906	2,587
Total	**2,379**	**2,700**	**-**	**11,016**	**5,539**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	December 31, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	**6,890**	**2,077**
	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.

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

	0%	20%	50%	75%	100%	Total credit exposure
			in NIS millions			
			December 31, 2022			
Sovereigns	891	–	–	–	–	891
Public sector entities (PSE) which are not central governments	–	451	–	–	–	451
Banks (including multilateral development banks)	–	3,154	–	–	3	3,157
Securities corporations	–	2,093	–	–	–	2,093
Corporations	–	–	54	–	4,329	4,383
Housing mortgages						
Regulatory retail portfolios	–	–	–	–	19	19
Small business	–	–	–	–	22	22
Total	**891**	**5,698**	**54**	**-**	**4,373**	**11,016**
			December 31, 2021			
Sovereigns	1,247	–	–	–	–	1,247
Public sector entities (PSE) which are not central governments	–	480	–	–	–	480
Banks (including multilateral development banks)	–	1,638	–	–	3	1,641
Securities corporations	–	280	–	–	–	280
Corporations	–	50	7	–	4,022	4,079
Housing mortgages	–	–	–	–	–	–
Regulatory retail portfolios	–	–	–	2	26	28
Small business	–	–	–	1	1	2
Total	**1,247**	**2,448**	**7**	**3**	**4,052**	**7,757**

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

	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral obtained		Fair value of collateral deposited		Fair value of collateral obtained	Fair value of collateral deposited
	Detached	Undetached	Detached	Undetached		
	in NIS millions					
	December 31, 2022					
Cash – local currency	742	110	6	139	-	-
Cash – other currencies	-	2,817	-	1,061	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	328	-	-	1,918	-
Total	**742**	**3,278**	**6**	**1,200**	**1,918**	**-**
	December 31, 2021					
Cash – local currency	29	89	196	22	-	-
Cash – other currencies	-	364	-	1,863	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Other collateral	-	183	-	-	1,953	-
Total	**29**	**636**	**196**	**1,885**	**1,953**	**-**

Credit derivatives exposures (CCR6)

Since 2019, the "Nostro" of Discount Bank includes also a credit derivative of the CLO class.
As of December 31, 2022, exposure of the Group in market value terms amounted to approx. NIS 1.5 billion.
Investment is permitted only in the AAA and AA rating levels. A current process exists for the monitoring of operations and risk inherent in the product, with the assistance of a designated system for the analysis of CLO products.

Exposures to central counterparties (CCR8)

	EAD after CRM	RWA	EAD after CRM	RWA
	December 31, 2022		December 31, 2021	
	in NIS millions			
Exposure to qualified central counterparty (QCCP)	2,292	211	1,644	294
Exposure to QCCP transactions (excluding primary collateral and transfers to risk fund); of which:	774	156	541	247
OTC derivatives	-	-	-	-
Traded on the stock exchange derivatives transactions	774	156	541	247
Securities financing transactions	-	-	-	-
Setoff formation where setoff of products has been approved	-	-	-	-
Detached primary collateral	-	-	-	-
Undetached primary collateral	1,469	30	1,054	22
Financed transfers to a risk fund	49	25	49	25
Non-financed transfers to a risk fund	-	-	-	-
Exposure to unqualified central counterparty (total)	-	-	-	-
Exposure to QCCP transactions (excluding primary collateral and transfers to risk fund); of which:	-	-	-	-
OTC derivatives	-	-	-	-
Traded on the stock exchange derivatives transactions	-	-	-	-
Securities financing transactions	-	-	-	-
Setoff formation where setoff of products has been approved	-	-	-	-
Detached primary collateral	-	-	-	-
Undetached primary collateral	-	-	-	-
Financed transfers to a risk fund	-	-	-	-
Non-financed transfers to a risk fund	-	-	-	-

Market Risk

General qualitative disclosure regarding market risks (MRA)

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.

- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB Bank, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

Strategy and policy

The policy document for the management of market risks forms a framework for the management of market risks at the Bank and at the Group and defines responsibility and authority of the factors involved in the management processes of the market risks accepted by the Group.
Management of the risk is designed to minimize, to the extent possible, the realization of unexpected risks and damage originating in the uncontrolled acceptance of risk.
The policy and principles presented in the policy document are on a group basis, the subsidiary companies having individually adjusted the policy to their own managerial structure, local regulation and their business environment. The risks are being managed from an overall Group standpoint and in the format of a binding professional guideline.
The policy document defines the framework for the risk appetite as determined by the Board of Directors, as part of the understanding of the market risk profile of the Bank and of the Group and ensuring the existence of adequate capital compatible with this risk profile.

Principal changes in policy during 2022

In 2022, the effectiveness of the limits on market risks was tested at the Bank, at the Group and in the trading portfolio, from the aspects of the completeness of the range of exposures, the completeness of the coverage of vulnerabilities and the levels of exposure in effect in relation to the limitation and to their compatibility to the Bank's strategic plan. Respectively, several limitations have been updated while increasing the risk appetite in the investment portfolio.
Means of supervision and policy realization. During the past year, in addition to reviewing market risks as part of the quarterly risks report, the Board of Directors has held several specific discussions relating to market risks, including:
- updating the policy documents in the sphere of market risks, including the risk appetite;
- reviewing the assumptions in the management of the risk;
- reviewing the stress tests.
- quarterly review of market risk management at the Group and explanations for the main changes that have occurred;
- review of derivatives activity at the Group.

These reports assist the Board of Directors in supervising the various market exposures and in corroborating that the Management's activity is consistent with Group policy and the risk appetite.

Risk appetite

The market risks appetite, as defined in the policy, reflects the willingness of the Bank and the Group subsidiaries to take market risks for the purpose of attaining their strategic goals. The guiding concept in managing the risk is that the balance sheet should be managed with the aim of maximizing the economic capital, taking a long-term view and taking the risk appetite into account, and subject to accounting considerations and considerations affecting the capital planning.
The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.
The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses at various strengths: normal business situation scenarios, high volatility scenarios according to Basel 4 recommendations (IRRBB) and a variety of stress tests over various time spans.

Two groups of risk indices have been determined – principal risk indices, serving the first line in taking current or periodic decisions regarding the scope of exposure and the remaining risk indices serving as an overall view of the market risk profile in different situations, including stress situations. Board of Directors limitations were set for all the principal indices. With respect to the remaining indices, Board of Directors limitations were set for a part thereof, while limitations and a minimum level for discussion, were set at a Division Head level for another part and additionally, some risk indices exist for which monitoring alone with no limitations is performed.
The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and processes

Market risk management policy defines the organizational structure for risk management, which ensures a proper balance and non-dependence between the entities involved in the risk management. The three lines of defense that are defined in relation to the market risks ensure this balance, as follows:
First line of defense. The collective Group management of interest risk, and inflation and exchange rate risks are being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group, the Bank, IDB Bank, MDB and all business activities: the asset and liability management, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.
Second line of defense. The risk management function is an independent function whose role is complementary to the risk management activity conducted by the business lines. This function has the standing and authority to enable it to have an effect on decisions impacting the risk exposure, including involvement in the principal strategic processes having a material effect on the risk appetite, identification of the risks, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.
Third line of defense. The internal audit at the Bank and at the Group companies is responsible for providing an independent and unbiased assessment of the degree of effectiveness of the implementation of risk management processes at the Bank and at the Group companies, based on findings arising from the audits conducted according to the work plan that is approved by the boards of directors of the Group companies.
The Internal Audit division is responsible for performing an array of independent audit assignments, initiated both by itself and by the Board of Directors, which pertain to all matters relating to the risk management processes and the quality of the risk management. The assignments of the third line of defense relate to all the core processes and its duties are based primarily on the provisions of Proper Conduct of Banking Business Directive No. 307.
Management supervision. Current management and supervision in the area of market risks management are performed, among others, by the following committees (over and above the activity of the Management as an organ):
- **Asset and liability management committee (ALM committee).** The committee is headed by the President & CEO and meets once a month. The role of the committee is to determine the Bank's assets and liabilities management policy, to determine exposure limits for market and liquidity risks based on a situation evaluation of expected developments in the market according to market analyses and forecasts regarding economic developments in the market, interest rates in the various segments and expected changes in the CPI and in the exchange rate of the shekel. All this subject to limitations determined by the Board of Directors and in addition, the Committee examines the profitability of the various activities;
- **Group committee for assets and liabilities management (GALCO).** A committee headed by the President & CEO, which meets once in each quarter. The role of the Committee is to manage the market and liquidity risks of the Group in correlation with the risk appetite defined by the Board of Directors;
- **The financial forum** is an internal committee of the Financial Markets Division, headed by the head of the Division. The forum meets on a weekly basis for the purpose of evaluating current developments in the markets and monitoring the implementation of guidelines issued by the ALM committee. The forum is responsible for the current management of the Bank and the Group's linkage base and interest rate exposure, within the framework of the targets outlined by the assets and liabilities management committee.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it is been defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and of credit risk assets.

Measurement and reporting

Measurement of exposure to market and liquidity risks, including the calculation of the principal risk assessments is and is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.
The second line of defense measures exposure to market risks by means of additional risk indices, such as VAR, high fluctuation scenarios and stress tests through an independent computation made at weekly intervals for the Bank and at monthly intervals for the Group.
The risk management system is used as a data base for financial data, in which is collected the information regarding the range of financial instruments in which the Bank operates, including embedded options, for market data (such as indices, exchange rates and interest rates), including the fluctuations thereof and the statistical correlation between them. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured according to financial and behavioral models (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).
This system is also used by MDB in computing its exposure to market and liquidity risks.
IDB Bank. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a monthly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Risk mitigation

Hedging of market risk policy. The Bank's policy and its banking subsidiaries as regards market risks management is based on the management of exposure to market risks, within the framework of quantity active limitations determined with respect to such exposures while defining the manner of operation and protecting it.
The means used for compliance with the determined limitations include:
- The purchase and sale of marketable instruments in all linkage segments (mainly securities for various periods);
- Investment in and raising of non-marketable financial instruments (mainly deposits by banks and large customers);
- Activity in derivative financial instruments with banks and large customers.

Quantitative disclosure

(1) Limitations set by the Board of Directors

Quantitative limitations have been defined both in the policy document at the Board's level and at the level of the head of the Financial Markets Division.
The central limitations defined by the Board of Directors are:
- Exposure of the economic value to a change of 100 base points (EVE);
- Exposure of economic value to scenarios of change in the graph structure and additional sensitivity analysis;
- Exposure of the accounting value to an intermediary scenario;
- Exposure of the economic and accounting value under stress tests;

In addition, limitations and thresholds have been defined with respect to risk assessments, EAR and VaR regarding the balance sheet as a whole, and with classification to the portfolio (banking and trading), and more.

(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.

Distribution by exposure to changes in interest rates - consolidated

	December 31 2022												December 31 2021		
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
	In NIS millions										In %	In years		In %	In years
Financial assets[1]	239,901	16,298	18,294	27,358	21,420	17,572	8,473	966	283	350,565	5.14%	(3) 1.23	323,347.00	2.57%	(3) 1.39
Other amounts receivable[2]	88,304	109,887	104,901	45,577	15,707	16,629	1,427	1,250	-	383,682		(3) 1.00	293,468.00		(3) 1.28
Financial liabilities[1][4]	137,858	26,929	66,858	43,700	23,384	29,567	1,042	4	-	329,342	2.80%	(3) 1.37	301,081.00	0.46%	(3) 1.46
Other amounts payable[2]	91,941	114,397	92,932	42,815	17,891	19,788	2,544	1,750	(372)	383,686		(3) 1.13	296,932.00		(3) 1.41
Exposure to changes in interest rates	**98,406**	**(15,141)**	**(36,595)**	**(13,580)**	**(4,148)**	**(15,154)**	**6,314**	**462**	**655**	**21,219**			**18,802**		
Additional details on exposure to changes in interest rate															
A. According to the substance of operation:															
Exposure in the banking book	99,948	(10,838)	(42,199)	(15,224)	(4,570)	(14,581)	6,340	494	655	20,025		(3) 0.21	18,403		(3) 0.17
Exposure in the trading portfolio	(1,542)	(4,303)	5,604	1,644	422	(573)	(26)	(32)	-	1,194		(3) 0.01	399		(3) 0.03
B. According to linkage bases:															
Non linked Israeli currency	74,659	(11,536)	(40,509)	(14,112)	(3,201)	(7,111)	3,830	247	553	2,820		(3) 0.09	8,511		(3) 0.04
CPI linked Israeli currency	-	250	2,381	3,353	3,753	1,577	1,732	233	21	13,300		(3) 1.74	5,067		(3) 1.16
Foreign currency (including Israeli currency linked to foreign currency)	23,747	(3,855)	1,533	(2,821)	(4,700)	(9,620)	752	(18)	81	5,099		(3) 0.31	5,224		(3) 0.37
C. Effects on the exposure to changes in interest rate:															
Effect of liabilities for employee rights	104	-	(122)	(352)	(78)	(908)	(819)	(333)	372	(2,136)	1.52%	(3) 9.41	(2,634)	0.70%	(3) 9.71
Effect of allocation to periods of on-call deposits	70,053	(4,182)	(3,255)	(14,351)	(15,707)	(25,785)	(552)	-	-	6,221	3.19%	(3) 4.61	2,428	1.49%	(3) 4.72
Effect of early repayments of housing loans	127	244	980	1557	(171)	(243)	(1,740)	(587)	-	167	0.01%	(3) 0.18	(124)	0.01%	(3) 0.28

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments. Net of the effect of allocation to periods of on-call deposits.

(2) Amounts receivable/payable of derivative financial instruments off-balance sheet financial instruments net of the effect of liabilities for employee rights. Complex financial instruments are classified to periods based on the effective average period to maturity of each instrument, since it is not possible to reflect their interest exposure by classification to cash flow repayment periods or to the next interest rate renewal date.

(3) Weighted average by fair value of average effective duration.

(4) Not including liabilities for leasing.

General notes:

(a) In this Table, the data by periods reflect the present value of future cash flows of each financial instrument (excluding nonfinancial items) and of other amounts receivable/payable, net of the effect of liabilities for employee rights and allocation to periods of on-call deposits, as explained in Note "C" below, capitalized using the interest rate discounting them to the fair value stated for the financial instrument in Note 34 to the financial statements, consistently with the assumptions applied in the computation of the fair value of the financial instrument. For additional details on the assumptions used in computing the fair value of financial instruments, see Note 34 to the financial statements.

(b) The present value of cash flows stemming from on-call deposits is computed according to assumptions regarding periods to maturity used by the Bank in the management of interest rate risk.

(c) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 34 to the condensed financial statements.

(d) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(e) Additional details on exposure to changes in interest rate in each segment of financial assets and financial liabilities, according to the different balance sheet items, are available upon request.

For explanation of material differences existing between the Bank's exposures, as reflected in the detailed disclosure by periods contained in the Risk Report, and the Bank's disclosure in the Board of Directors and Management Report, see "exposure to interest risk", in Chapter "C" of the Board of Directors and Management Report.

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 from it 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, which is in the investment 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 100BP as of December 31, 2022	Affect of 100BP as of December 31, 2021	Liabilities	Affect of 100BP as of December 31, 2022	Affect of 100BP as of December 31, 2021
			in NIS millions		
Credit	3,106	2,778	Deposits	1,274	971
Available-for-sale securities portfolio	732	1,341	Debt notes	418	502
Trading securities portfolio	36	56	Off balance-sheet (derivatives)	221	137
Held-to-maturity securities portfolio	576	479	Current account spreading	1,845	2,090
Off balance-sheet (derivatives)		-	Employee rights	258	320
Other	18	32	Other	3	
Total	4,467	4,686	Total	4,020	4,019

(3) Additional information – models and risk indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.

The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.

The additional indices and models include the Value at Risk (VaR), potential loss resulting from high fluctuations scenarios (IRRBB) in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, models are available for the management of exposure in the banking portfolio that express assumptions regarding customers' behavior in various scenarios, including a model for the distribution of credit balances of on-call deposits.

All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out according to the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined according to the level of risk attributed to each model on a specific basis.

Principal indices for management

Index showing the sensitivity of the economic value to parallel changes in the interest graphs at 100 basis points. Examination of the sensitivity of the whole balance sheet of the Group to changes in interest rates, by means of the capitalization of future cash flows using transfer prices. Cash flows stemming from the Bank's assets and liabilities have been modified, in a way which expresses assumptions regarding timing according to models assessing behavior of customers under different scenarios. The main disadvantage of the model stems from the fact that it presents a parallel scenario only of the change in the basic interest rate and does not include additional interest risk factors, such as non-parallel changes in the interest graphs, interest base risks and the risk on the cost of raising funds. The model and its assumptions are being documented within the framework of the work procedures of the Global Treasury unit, and it has been validated and approved for use.

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

	For the quarter ending:			
	December 31, 2022		December 31, 2021	
	End of reported year	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(447)	(455)	(667)	(742)
Limitation set by the Board of Directors	(1,676)	-	(1,520)	-
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

The sensitivity of the accounting value index to changes in interest rates in the capital scenario. The capital scenario is one of the two principal indices relating to the management of the Bank's exposure to interest rates. The index represents the risk of erosion in the Group's capital ratio in a scenario that takes into consideration the effect of changes in a number of risk factors.

This index includes all risk factors that affect the accounting value, including: interest rate risks, credit spread risk relating to different assets included in investment portfolios, equities risk as well as additional risks stemming from bond and liquidity markets operations. The index is computed once a week.

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

	For the year ended on:			
	December 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	(149)	(609)	(624)	(900)
Limitation set by the Board of Directors	(1,676)	-	(1,520)	-

In 2022, the Bank reduced exposure of the capital to the rise in the interest, and the above stated is reflected in the effect of the scenario.

Indices and additional models

The Value at Risk (VaR). The VaR assesses the maximum loss that might be sustained as a result of the realization of market risks in a given period of time and at a statistically defined level of safety. The results of the model allow the assessment of the Bank's overall exposure to market risks and the examination of developments in market risks over a period of time.

Three methods for the calculation of the VaR exist:

- The parametric method – makes use of the difference and correlation matrix between the different risk factor and is derived from historical data as regards the risk factors. This method assumes that the risk factors are distributed normally;
- The historical method - assesses the fluctuations in risk factors on the basis of past experience. This method does not include assumptions as to the distribution of the different risk factors or as to the correlation between them;
- The Monte Carlo method – a non-parametric method which allows an accurate VaR calculation also for non-linear instruments, such as options. The method is based on forming a joint distribution for risk factors on the basis of past data and a random sample of a large number of observations of the same distribution.

The Bank uses the historical method for estimating the VaR in order to examine the quality of the model and its validity, the actual loss is examined. A deviation is created where the actual loss is higher than the value at risk.

The usefulness of the model and of the determined limitations – the VaR model is used today for the examination of market risk on the activity of the whole balance sheet and on the trading portfolio, as set forth below, as required by Proper Conduct of Banking Business Directive No. 339.

The VaR on the whole balance sheet. The VaR on the whole portfolio (both the banking and trading portfolios) is calculated using the historical method at weekly and monthly intervals for the Bank and for the Group, respectively, with a confidence level of 99% and a time horizon of one month. The Board of Directors have set an internal warning threshold in the model (warning thresholds are intended to alert the decision-makers to a high/exceptional risk level but, in contrast to the limits, when these are exceeded – although a discussion is required – the exposure does not need to be changed). Accordingly, the Group's VaR is not to exceed 3% of the equity. In 2022, this limit was not exceeded.

This risk estimate serves as one of the risk estimates that support the Group's overall market risk perspective.

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. During the third quarter, in light of high volatility in the markets, the Bank reported to the board of directors on indicators that identify the development of a stress situation in the markets. Accordingly, limits and control processes stipulated in the policy for such a situation were applied.

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

	Fourth 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	14.9	33.8	10.7	16.3
Limitation set by the Board of Directors	50		30	

Footnote:

The VaR calculated for 10 business day and profitability of 99%.

The result of BackTesting performed on the results of the Bank's model indicate that the model corresponds with the statistical requirements and that it is valid.

Loss analysis in extreme scenarios (Stress Tests). Stress tests alert Management to exposure to events, in which acute changes occur with respect to a number of risk factors, and comprise an important tool in the market risk management process, which assists in the identification of weak-points, in a way that would not have been reflected in full in other risk indices. As part of the risk management process, exposure of the Group to different stress events is being evaluated.

The stress tests are based on historical events as well as on narratives and on regulatory definitions. Measurement of the exposure is performed using an economic approach and using an accounting approach. These approaches are used both for the purpose of ongoing management, and also for the purpose of evaluating the capital adequacy within the framework of the ICAAP. In addition, the Bank computes the result of the uniform stress test, as determined by the Supervisor of Banks for the whole of the banking industry.

- The economic approach – an approach that expresses the effect of changes in market factors on the present value of all the assets and liabilities that reflect the economic value;
- The accounting approach – under this approach, an examination is performed of both the immediate effect (for a term of up to a month) and also of the long-term effect (for a term of up to a year) on the Common Equity Tier 1, as a result of changes in market risk factors. These effects are calculated on all the positions that affect the capital ratio, including off-balance-sheet positions and the trading portfolios. In addition, for the purpose of calculating the long-term effect, the changes in respect to the stress test on interest income are also included.

Stress tests that include changes in interest rate curves (parallel and not parallel), while breaking principal behavioral assumptions, changes in major currency exchange rates, changes in principal share indices and in the CPI and changes in the spreads of investments in corporate bonds.

Following are the Group's main stress scenarios implemented:

- Stress tests as defined by the Bank of Israel (from the year 2018 and the year 2021);
- Internal scenario based upon a narrative modified to the vulnerable points of the Group;
- Historical scenario "Corona crisis";
- Stressed VaR.

In addition, several stress tests are conducted with respect to interest risk, as required by Proper Conduct of Banking Business Directive No. 333.

The market stress tests are determined according to regulatory requirements and according to the Basel IRRBB recommendations.

The limits set by the Board of Directors relate to both the erosion in the economic value in stress tests and also to the effect on the capital adequacy ratios. In 2022, no exceptions to the limits were recorded.

Analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model. The net interest income (NII) forecast is carried out with the aid of a dynamic simulation of development of the balance sheet and the net interest income for the next quarter and for the next year. The simulation is intended to test the effects of the various assets and liabilities management strategies on the Bank's future interest income. The forecast serves as an important part of the work plans, and is based on many assumptions.

The EaR index measures the sensitivity of the financing income forecast (NII) to the changes in interest rates.

This is a secondary index within the framework of the risk management processes in the Group, and no limitations have been set in respect thereof by the Board of Directors though a threshold for discussion has been determined. This, mostly, in view of the fact that the ability to control and manage it is limited. Within the measurement framework of the long-term stress tests, the financing income forecast is integrated under the assumptions contained in the narrative of the scenario.

(4) Inflation and exchange rate exposure

Risk of loss as a result of the effects of changes in inflation or foreign exchange rates, including the effect of derivatives and forward contracts on the margin between the assets and the liabilities.

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. 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 Bank has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.
The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.
The exposure is measured separately for each material currency.

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

		Fourth Quarter of 2022				2021		
			Position range					
Segment	Limitation	Year end	From	To	Average	Year end	From	To
CPI linked*	50%-(50%)	41.3%	33.9%	41.3%	37.9%	10.9%	1.7%	16.9%
Foreign currency	15% - 30%	17.8%	17.0%	17.8%	17.3%	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.

(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 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 are made "over the counter" (OTC) according to customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.
The market exposures, which are created as a result of activity in derivative financial instruments, both for inflation and foreign currency exchange rates and also for interest, are included within the framework of the Board of

Directors' various limits. The counterparty exposures are managed under agreements for the transfer and set-off of collateral and vis-à-vis central clearing houses.
In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers of or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.
The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.
No deviations from limitations set by the Board of Directors were recorded in 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 according to the Bank's procedures.
Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself.

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

	December 31, 2022	December 31, 2021
	in NIS millions	
Not for trading derivatives	77,571	52,708
Of which: hedging derivatives	9,811	4,876
Trading derivatives	370,618	294,872
Total	**448,189**	**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 according to the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements.
According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".
The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis to the statements of profit and loss while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce according to generally accepted accounting principles and the transactions in derivative financial instruments 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.
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– regular 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 determined limitations regarding permitted option activity, 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. The Division Head document also determined 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 2022.

Market risk according to the standardized approach (MR1)

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

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

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

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

	Capital allocation as of	
	December 30, 2022	December 31, 2021
	In NIS millions	
Interest rate risk*	419	409
Foreign exchange rate risk	24	14
Share risk		
Option risk	10	7
Total for the Banking Group	**454**	**430**
Allocation in risk asset terms	**3,633**	**3,738**

* Including the specific risk in the amount of NIS 1.8 million and NIS 2.3 million in December 2022 and December 2021 respectively.

The allocation to market risks in risk asset terms comprises 1.46% of the total risk assets as of December 31, 2022, compared with 1.74% as of December 31, 2021.

The Bank has reduced the allocation of capital by means of improving the trading portfolio and reducing the volume of open transactions.

Interest rate risk in the banking book (IRRBB)

General. The Bank manages the market risks from an overall perspective, while differentiating between the trading portfolio exposures and the banking portfolio exposures. Accordingly, this Section below should be read together with the above qualitative disclosure in the matter of market risk. Furthermore, within the framework of the market risk Section, a quantitative disclosure is presented regarding the overall interest risk, without differentiating between the interest risk in the banking portfolio and the interest risk in the trading portfolio. Accordingly, the quantitative information regarding interest risk presented therein should also be reviewed.

The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and which includes the Bank's activity in credit transactions, in the purchase of securities and in attracting deposits and the issuance of capital notes. Such activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk propensity.

Effect of parallel changes of 100 base points in the interest rate applying to the banking book

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
	In NIS millions				
	For the fourth quarter that ended on December 31, 2022				
An increase of 100BP in interest rates	(52)	(493)	106	26	(412)
A decrease of 100BP in interest rates	101	411	(135)	(28)	349
	December 31, 2021				
An increase of 100BP in interest rates	(619)	(65)	25	47	(612)
A decrease of 100BP in interest rates	638	108	(265)	(55)	427

Behavioral economic models integrated in risk management

Behavioral models express the assumptions regarding the conduct of customers under different scenarios. Any change in the calculation methodology is brought for approval of the Management committee following approval by the CRO.

Behavioral assumptions applied in the assessment of Interest Risks

Credit balances not having a settlement date spread model. For the purpose of calculating exposure to interest rate risk, the Bank assumes that a significant proportion of the credit balances of on-call deposits are not subject to immediate withdrawal. With this relying on, inter alia, a lengthy examination of customer habits over time. The model assumes a stable amount over time ("the stable portion").
Accordingly, when calculating the Bank's exposure to interest risk, the stable portion is treated as a long-term liability spread over the same period. The model is applied to credit balances with no maturity date of the Bank, of MDB and of IDB Bank, according to examining the conduct characteristics of the customers of each of these banks separately. This model is also used for all the deposits not having a settlement date in respect to IDB Bank, as is the practice at U.S. banks.
Models for quantifying early repayment of assets risk (Prepayment Risk). The Group operates several models forecasting early repayments in the asset portfolio. In the course of the first quarter of 2021, the Bank updated the model predicting early repayments changing into a statistical model. In the first quarter of 2022, MDB implemented a model identical to that of Discount Bank, for the forecasting of early repayments. IDB Bank makes use of models accepted in the U.S. for the assessment of early repayment rates in the mortgage backed asset portfolio held by it.
Models for the premature withdrawal of deposits. Similar to premature repayment of assets, the Group in Israel operates a model based on historical data regarding the behavior of customers as regards savings plans and deposits that include optional premature withdrawal dates. By means of this model, the Bank assesses the expected cash flow in respect of such liabilities, which is different from their contractual cash flow.

Quantitative information regarding interest risk in the banking book and the trading book

Adjusted fair value of financial instruments - consolidated

	December 31 2022						December 31 2021					
	Israeli currency		Foreign currency[3]				Israeli currency		Foreign currency[3]			
	Non linked	CPI linked	US dollar	Euro	Other	Total	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions											
Financial assets[2]	259,488	27,201	58,733	4,219	924	350,565	238,320	24,258	56,441	3,444	884	323,347
Other amounts receivable in respect of derivative, hybrid and off-balance sheet financial instruments	155,950	9,301	190,960	21,237	6,234	383,682	120,043	7,285	137,465	20,784	7,891	293,468
Financial liabilities[2]	226,417	11,948	89,198	6,209	1,791	335,563	208,780	14,941	72,200	5,945	1,643	303,509
Other amounts payable in respect of derivative, hybrid and off-balance sheet financial instruments.	188,092	11,254	158,084	18,899	5,221	381,550	139,446	11,535	118,144	17,998	7,175	294,298
Net fair value of financial instruments	**929**	**13,300**	**2,411**	**348**	**146**	**17,134**	**10,137**	**5,067**	**3,562**	**285**	**(43)**	**19,008**
Effect of liabilities for employee rights	(2,109)	-	(27)		-	(2,136)	(2,606)	-	(28)		-	(2,634)
Effect of allocation to periods of on-call deposits	4,000	-	1,948	273	-	6,221	980	-	[4]1,265	[4]183	-	2,428
Net adjusted fair value[1]	**2,820**	**13,300**	**4,332**	**621**	**146**	**21,219**	**8,511**	**5,067**	**4,799**	**468**	**(43)**	**18,802**
Of which: the banking book	2,353	13,634	3,354	369	315	20,025	8,382	4,950	[4] 3,947	[4] 861	263	18,403

Notes:

(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(2) Excluding balance-sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of hybrid financial instruments.

(3) Including Israeli currency linked to foreign currency.

(4) Reclassified - Improvement in the calculation of the data.

Effect of scenarios of changes in interest rates on the adjusted net fair value - consolidated

	December 31 2022						December 31 2021					
	Israeli currency		Foreign currency[4]				Israeli currency		Foreign currency[4]			
	Non linked	CPI linked	US dollar	Euro	Other	[5]Total	Non linked	CPI linked	US dollar	Euro	Other	[5]Total
	In NIS millions											
Parallel changes												
A parallel increase of 1%	610	(613)	134	33	3	167	(84)	(382)	65	37		(364)
Of which: the banking book	600	(600)	154	29	3	186	(70)	(379)	70	34	2	(343)
A parallel decrease of 1%	(596)	603	(164)	(35)	(3)	(195)	77	391	(307)	(42)		119
Of which: the banking book	(578)	587	(184)	(30)	(3)	(208)	66	384	(313)	(39)	(2)	96
Non-parallel changes												
Curving[2]	(451)	(198)	43	13	(1)	(594)	(335)	(155)	6	17		(467)
Of which: the banking book	(504)	(180)	33	10	(1)	(642)	(353)	(145)	12	13	(1)	(474)
Flattening[3]	568	63	(23)	(6)	1	603	300	69	(20)	(11)	(1)	337
Of which: the banking book	617	47	(8)	(4)	2	654	319	59	(23)	(6)	1	350
Interest rise in the short-term	764	(179)	41	9	2	637	253	(79)	11	5	(1)	189
Of which: the banking book	804	(188)	63	8	2	689	276	(86)	10	8	1	209
Interest decline in the short-term	(816)	181	(42)	(9)	(2)	(688)	(276)	74	(159)	(9)	1	(369)
Of which: the banking book	(858)	191	(64)	(9)	(2)	(742)	(300)	81	(158)	(12)	(1)	(390)

Notes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Curving – decline in interest in the short-term and increase in interest in the long-term.
(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.
(4) Including Israeli currency linked to foreign currency.
(5) After offsetting effects.

Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income

	December 31 2022			December 31 2021		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	521	(44)	477	1,216	(72)	1,144
Of which: the banking book	509	(41)	468	1,202	(64)	1,138
A parallel decrease of 1%	(1,033)	35	(998)	(1,404)	76	(1,328)
Of which: the banking book	(1,021)	35	(986)	(1,390)	67	(1,323)

Shares Risk

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:

- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see "Investments in Non-Financial Companies" under "Activity of the group according to regulatory segments of operation – additional details" in the 2022 Annual report.

Details regarding investments in shares

	December 31	
	2022	2021
	In NIS millions	
Investments in shares of associates[(1)]:		
Non marketable shares	486	462
Shares in the available-for-sale portfolio:		
Marketable shares	130	283
Non marketable shares	1,637	1,330
Total shares in the available for sale portfolio	**1,767**	**1,613**
Total investment in shares	**2,253**	**2,075**

Footnote:

(1) For additional information, see Note 15 to the Financial Statements.

Capital requirement regarding share position

	December 31	
	2022	2021
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[(2)]	298	230
In respect of investments in other shares[(3)]	150	135
Total capital requirement share position[(1)]	**448**	**365**

Footnotes:

(1) The capital requirement was computed according to 12.5% and does not include capital requirement for investment in shares in the trading portfolio.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100% and 250%.

Liquidity risks

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			
	December 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)		79,444		67,627
Cash outflows				
Retail deposits from individuals and small businesses, of which:	156,533	10,324	142,470	10,132
Stable deposits	51,421	2,540	50,859	2,508
Less stable deposits	63,856	6,546	66,926	6,883
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	41,257	1,238	24,685	741
Unsecured wholesale financing, of which:	108,357	66,164	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)	107,063	66,088	96,421	57,441
Unsecured debts	1,294	76	1,395	58
Secured wholesale financing	-	202	-	77
Additional liquidity requirements, of which:	91,045	23,309	83,120	19,186
Cash outflows in respect of exposure to derivatives and other collateral requirements	16,914	16,360	12,438	11,524
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	74,131	6,949	70,682	7,662
Other contractual financing commitments	38,158	982	30,889	822
Other conditional financing commitments	2,927	98	2,659	91
Total cash outflows		**101,077**		**87,808**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	658	658	1,422	1,422
Cash inflows from regularly performing exposure	27,566	22,752	23,567	19,489
Other cash inflows	19,839	16,783	13,696	11,939
Total cash inflows	**48,065**	**40,193**	**38,685**	**32,850**

	Total adjusted value	Total adjusted value
Total High Quality Liquidity Asset (HQLA)	**79,444**	**67,627**
Total net cash outflows	**60,884**	**54,958**
Liquidity Coverage Ratio	130.5%	123.1%

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

Policy

The Bank manages the liquidity risk according to the policy document, which is updated and approved by the Board of Directors in each year, and expresses the guidelines of the Regulator and accepted principles in this field. The policy includes reference to a number of stress tests, the structure of the resources of funds, the liquidity cushion and the fixing of limits regarding the various risk assessments. The policy includes in addition the Bank's plan for dealing with a liquidity crisis (CFP), including defining an array of indicators used for the identification of liquidity risk trends.

Limitations on the exposure to liquidity risks. The limitations determined by the Board of Directors in the policy document, refer to a number of risk assessments as well as to the structure of assets and liabilities. No deviations were recorded in 2022 from the limitations determined by the Board of Directors.

Structure and processes

The Internal control mechanisms for avoidance of deviation from policy:

- A Liquidity Forum convenes at least once a week, discusses the liquidity situation of the Group and ensures the implementation of the financing strategy under the limits on liquidity risk management;
- A financial forum that meets on a weekly basis and reviews the liquidity situation and developments regarding risk assessments in respect of liquidity at the Bank and at the Group;

Asset and liability management committee (ALM committee). In the framework of the committee, the situation of the liquidity risk at the Bank and at the Group has been reviewed. See above "Management of market risks".

The Group asset and liability management committee (GALCO) meets once in each quarter. The committee monitors the implementation of the Group finance strategy.

Manner of managing the liquidity risk at the Bank and at the Group

The Board of Directors bears the supreme responsibility for outlining the manner of the liquidity risk management at the Discount Group. In this framework the Board is responsible, among other things, for determining a liquidity risk management policy, determining the risk appetite and approving the limitations on the exposure, the annual updating of the policy document, and supervision over the Management's activities in order to ensure that the risks profile is in line with the determined risk appetite, and approval and monitoring of the application in practice of the financing plan within the framework of the work plan. In the course of updating the policy document in 2022, some of the restrictions set by the Bank's Board of Directors were updated, inter alia, complying with the requirements of Proper Conduct of Banking Business Directive No. 336 regarding management of pledged assets. Included in the above, the list of indicators for identification of a developing liquidity crisis had also been updated.

Management bears responsibility for the implementation of the policy and the management and supervision thereof. Responsibility for these duties is realized by means of maintenance of supervision and control mechanisms and the establishment of work processes and procedures in each of the Group companies exposed to liquidity risks. Management holds annual discussions regarding the Group finance plan, where decisions are made with respect to the scope, composition, characteristics and distribution of resources given the business plan.

During the course of the year, the Management holds regular discussions, within the framework of the monthly ALM Committee meetings, regarding developments in the liquidity position of the Bank and the Group, as measured by the various models, including the LCR (liquidity coverage ratio). The elements leading to changes in the level of liquidity at the Bank and the principal subsidiaries are analyzed at these discussions.

The first line of defense, headed by the Head of the Financial Markets Division, through the Global Treasury Unit,

manages the liquidity risk at the Bank by means of an internal model that includes a variety of scenarios at different stress levels, the liquidity coverage ratio, as well as by monitoring the forecasted liquidity gaps in shekels and foreign currency assuming the materialization of the work plan. Also and monitors developments in the composition of the liabilities broken down according to the type of depositors and the periods to maturity, including the NFSR (Net Stable Funding Ratio) is measured. This measure reflects the long-term liquidity risk by computing the ratio between the stable resources and the fixed applications.
The second line of defense, the Risk Management Division identifies trends relating to liquidity risk, by means of indicator reports ("KRI's").
The measurement of the liquidity risk, by means of the internal liquidity model and the liquidity coverage ratio, includes independent controls, by the control function at the first line of defense on a current basis, and a quarterly examination of the appropriateness of the measurement by the second line of defense. The second line of defense, the Risk Management Division, challenges the methodology and the liquidity risk management processes at the Bank and at the Group, including the different decision making procedures regarding liquidity ratios and the internal models of the Group and of the different Group companies.
The Global Treasury Unit holds a weekly liquidity forum that discusses both the liquidity of the Bank and the liquidity of the Group. The subsidiary companies do not partake in the forum, though the forum receives reports by the subsidiaries regarding the results of their internal models and their liquidity coverage ratios. The internal models for measuring the liquidity risk at the subsidiaries are subject to the mandatory professional guidance of the Bank's Global Treasury Unit and of its Risk Management Division.

Measurement and reporting systems

The current assessment of the liquidity risk provides decision makers with indications for the identification of situations in which the liquidity risk rises, which enables the maintenance of a proper liquidity level, and is conducted, as stated, using the designated system for market risk management.
Risks are being identified and assessed on a current basis, at the Group level and at the level of each Group company, the operations of which involve liquidity risk.
The identification of trends in the liquidity situation is conducted through a monitoring process for indices and additional tools, as well as the current examination of the key risk indicators (KRI's).

The annual financing plan

The financing plan document for 2023 has made an in-depth survey of the components of the Group plan, as well as a comparative cross-analysis of the operations of the banks operating in the sector, of the level of competition, and of the structure of resources of Discount Bank vis-à-vis the system. The plan does indeed focus on the current working year, but at the same time takes also into account the medium and long-term spun with a view of serving a consistent and coherent financing policy.
The financing plan takes into account and widely discusses a large number of variables:
- The present liquidity situation of the Bank;
- The credit growth goals of the Group;
- The liquidity situation of competitors, financing challenges in the sector and the anticipated level of competition;
- Different trends in the banking sector from the aspect of classes of customers, price level and trends in the financing profile of competitors from the aspect of their products (deposits/debt), average period to maturity (short/long) and more;
- The market share of the Bank;
- Opportunities and possible risks.

The financing plan refers to the whole Group and states detailed financing goals for each of the material Group companies.

Retail financing sources are defined as a strategic asset of the Group and wholesale financing sources are marked as a growth potential.
The Group financing goals alongside possible deviations there from and alternative course of action are discussed on a monthly basis by the ALM Committee, and with respect to Group aspects, at least once in each quarter as part of the discussion of the Group's ALM (Galco).

Contingency Funding plan

Principle 11 of the Basel principles document of 2008, states that a banking corporation shall have a formal Contingency Funding Plan (CFP) in case of emergency, which clearly states the strategies for the treatment of liquidity shortage in extreme situations. The plan shall outline a policy for the management of a variety of scenarios, shall determine clear lines of responsibility, and shall include reporting procedures, including reports in the event a deteriorating situation. The Plan is to be examined and updated on a regular basis in order to ensure its operational validity.
From the viewpoint of the instruction, the realization of the liquidity risk occurs in the event that a banking corporation is compelled to raise funds at high prices or to sell assets at a loss in order to honor its obligations.
Establishing an orderly process of dealing with possible crisis situations, increases the level of awareness and readiness of the various functions in the organization, thus stressing its importance and contribution to the mitigation of risk of crisis situations, and to the proper management thereof, when these breakout. The Bank's Management exercises from time to time the Contingency plan drawing the necessary conclusions.
The Bank's CFP presents clearly the various practical actions that have to be taken in time of emergency. The plan describes the processes and functions that are responsible for the identification of a crisis situation, for managing the crisis, including determining the areas of responsibility and authority, reporting processes and their frequency, Group management and coordination, declaring the return to "business as usual" situation, the existence of proper processes for the drawing of conclusions. In addition, the plan presents at each stage different action possibilities requiring extensive discretion while examining the implication.
The plan for the management of a liquidity crisis comprises a set of default options and focuses, which the organization will put into operation upon the development of a liquidity crisis. Notwithstanding the above, it does not form an alternative to real-time decision making and discretion at the various management levels of the Bank, which are crucial in an unexpected and volatile crisis situation such as the liquidity crisis.
The central focal points of the plan are:

- Identification and declaration of a liquidity crisis;
- Actions for the improvement of the liquidity level;
- Measurement and monitoring of the liquidity level;
- Information;
- Group management.

The plan distinguishes between a variety of liquidity crises, including a system crisis, a specific crisis, and a combined crisis at different levels of intensity in each type of crisis. Furthermore, the plan refers also to a situation defined as a pre-crisis situation, where the specific/system liquidity risk has increased prior to the declaration of the event as a crisis situation, and to the transition between different stress levels or transition between different types of crises. Moreover, the plan provides a response for a liquidity crisis being realized in a subsidiary company at the Group and the risk of its effect on other subsidiaries or on the Group as a whole.
The detailed plan relates to the Bank, which manages the Group's liquidity. The material subsidiaries approve an action plan at the company level with a methodology similar to that of the Bank.
The plan is being examined and approved on an annual basis, within the framework of approval of the policy document regarding the liquidity risk management.

Management of the potential liquidity needs

As of December 31, 2022, the total liquidity requirements for a period of one month according to the LCR Model, amounts at the Group level to NIS 57.4 billion. The group liquidity buffer at the end of the fourth quarter of 2022, amounted to NIS 75.3 billion, and the group liquidity surplus amounted to NIS 17.8 billion. The group liquidity buffer includes mostly, deposits with the Bank of Israel, Israel Government bonds denominated in shekels and MBS backed by U.S. government or semi-governmental agencies. The surplus liquidity is available to the Group for the carrying out of its planned business plan. The liquidity surplus is distributed among the Group companies in a manner that serves the potential liquidity needs of each company separately.
The liquidity requirements of each of the companies in the Group have been defined within the framework of the Group financing plan, including existing cash surplus, the raising of resources and the planned applications, and in the case of need, the ability to rely on the transfer of liquidity among the Group companies. Monitoring the performance of the finance strategy, possible deviations there from and ways of dealing with such deviations (to the extent that these arise) are discussed on a monthly basis by the ALM committee and at least once in every quarter the Group aspects are discussed by the Group’s ALM committee (GALCO).

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

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of ”liquidity coverage ratio”, which adopts the principles determined by the Basel Committee with a number of singular modifications.
The Directive states the manner of computing the liquidity coverage ratio, including definition of the characteristics and operational requirements for the ”high quality liquid assets” (the numerator) and collateral coefficients in respect thereof as well as the net cash outflow anticipated in the stress test as defined in the Directive for the thirty calendar days (the denominator). According to the provisions of the Directive, banks are required to maintain a minimum ratio of 100%.
Proper Conduct of Banking Business Directive No. 342 in the matter of ”liquidity risk management” remains in effect alongside Directive No. 221, and the banking corporations are required to comply with the qualitative and quantitative requirements contained therein, including the computation of the ”minimal liquidity ratio” under various scenarios and the measurement of additional parameters, such as the mix and concentration of deposits. At this stage, credit card companies are not required to comply with the new instructions and the requirements of Directive No. 342 shall continue to apply to them.
The liquidity coverage ratio is affected by four central factors: changes in the scope of non-liquid applications – mostly credit, changes in the scope of resources – deposits and the raising of funds through issuance, changes in the mix of deposits and changes in the mix of liquid assets.

The liquidity coverage ratio of the Discount Group

As of December 31, 2022, the ratio amounted to 131.1%, as compared to 127.50% at December 31, 2021. The increase of NIS 2.2 billion in surplus liquidity in the model (the difference between the liquidity cushion and the cash outflow) stemmed from the fact that in 2022, the Bank financed all its liquidity needs by attracting deposits together with the raising of debt capital and the issue of share capital. The said increase in resources was intended, inter alia, to allow accelerated growth of the credit portfolio of the Bank in 2023 as well. In 2022, the growth rate in the application of funds was lower than the growth in resources of the Bank.
The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB Bank on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

Details of the composition of the liquidity buffer

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

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB Bank to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB Bank 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 fourth quarter) according to the legal entities within the Group

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

Disclosure regarding pledged assets (ENC)

	Pledged assets	Assets used as collateral for a central bank	Assets – not pledged	Total
		in NIS millions		
		December 31, 2022		
Cash and deposits with banks	4,244	55,746	5,772	65,713
Israeli Government bonds	4,714	11,237	10,378	26,329
Foreign Governments bonds	-	-	5,452	5,452
Israeli financial institutions bonds	-	-	89	89
Foreign financial institutions bonds	227	-	322	549
Bonds backed by assets (ABS) or by mortgage (MBS)	39	1	8,370	8,411
Bonds of others in Israel	-	-	399	399
Bonds of others abroad	141	-	1,631	1,772
Shares	-	-	1,794	1,794
Total available-for-sale bonds and shares not for trading	**5,120**	**11,238**	**28,435**	**44,794**
Securities borrowed or purchased under agreements to resell	-	857	-	857
Credit to the public	4,502	3,167	236,618	244,288
Total	**13,867**	**70,152**	**270,775**	**354,795**
		December 31, 2021		
Cash and deposits with banks	2,447	51,231	5,960	59,638
Israeli Government bonds	1,374	11,155	14,675	27,204
Foreign Governments bonds	-	-	3,580	3,580
Israeli financial institutions bonds	-	-	123	123
Foreign financial institutions bonds	-	47	469	516
Bonds backed by assets (ABS) or by mortgage (MBS)	214	2	7,975	8,191
Bonds of others in Israel	-	-	553	553
Bonds of others abroad	-	116	1,967	2,083
Shares	-	-	1,619	1,619
Total available-for-sale bonds and shares not for trading	**1,588**	**11,320**	**30,961**	**43,869**
Securities borrowed or purchased under agreements to resell	-	1,207	-	1,207
Credit to the public	3,220	2,573	210,403	216,196
Total	**7,255**	**65,124**	**247,325**	**319,703**

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

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of December 31, 2022 the coverage ratio in shekels was 115.6% compared with 124.6% at December 31, 2021. The main factor leading to a decrease in the ratio was the effect of SWAP transactions, transition of liquidity from shekels to foreign currency.
The liquidity coverage ratio as of December 31, 2022, respecting the total of foreign currencies, amounted to 234.8% compared to 138.7% on December 31, 2021. The principal factors leading to an increase in the ratio were the increase in long-term financial deposits, volatility of exchange rates and the effect of SWAP transactions, transition of liquidity from shekels to foreign currency.
The liquidity coverage ratio with respect to US dollars as of December 31, 2022 was 212.2% as compared with 123.5% on December 31, 2021. The principal factors leading to an increase in the ratio were the increase in long-term financial deposits and the effect of dollar/shekel and dollar/ Euro SWAP transactions.
In Euros, the liquidity coverage ratio at December 31, 2022, was 160.7% compared with 150.4% at December 31, 2021. The main factor leading to growth in the ratio was the effect of Euro/dollar SWAP transactions activity.

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)

Proper Conduct of Banking Business Directive no. 222 in the matter of "stable funding ratio". Following conclusions drawn from the global financial crisis, the Basel Committee published central reforms for the improvement of the stability of the banking sector. Among these reforms, the Net Stable Funding Ratio – NSFR was published in October 2014. The Supervisor of Banks published the Directive adopting the recommendations of the Basel Committee in the matter of Net Stable Funding Ratio in the banking system in Israel. According to the directive, the objective of a Net Stable Funding Ratio is to improve the resilience of the liquidity risk profile of banking corporations in the long term by means of requiring the banking corporations to maintain a stable funding profile according to the composition of their balance sheet assets and their off-balance sheet activities. The Net Stable Funding Ratio consists of two components: available stable funding items (the numerator) and required stable funding items (the denominator). "Available stable funding" is defined as that part of the capital and liabilities that can be relied upon over the time horizon taken into account in the Net Stable Funding Ratio, which lasts for one year. The Required amount of stable funding of a particular corporation is a function of the liquidity characteristics and the residual maturities of the various assets held by that corporation, as well as of its off-balance sheet exposures.
According to the directive, the required minimum Net Stable Funding Ratio stands at 100%.

Net Stable Funding Ratio (LIQ2)

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

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**

Additional financing risk information that is not included in the third pillar disclosure requirements

Financing risk is the risk of a resources structure that is not stable enough in the long-run, which will not serve the planned applications.
The risk is managed by means of drawing up a funding plan every year, which is orientated toward a long-term perspective in relation to the composition of the resources of the Bank and of each of its main subsidiaries. For details, see above.

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

	30.09.2022	31.12.2021
	In NIS millions	
Total assets as of	116,252	111,551
Liquidity requirement	10,789	10,399
Of which pledged	22,960	20,607
Of which provided as collateral	1,155	1,181
Total available assets	**81,348**	**79,364**

Additional risks

Drafts and Instructions published during 2022

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

Operational risk

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

Policy

Operational risk management policy. The Bank defines the framework for operational risk management within the policy document, including a declaration of tolerance to operational risks. The main subsidiary companies have adopted the policy with the required adjustments.

These documents are approved once in each year by the Management and the Board of Directors. The Chief Risk Officer carries the supreme responsibility for the management of this risk at the Bank and at the Group.

The objectives of the operational risk management policy are to define the main principles and core processes in the management of operational risks to all the Bank's and group's units and this with the aim of ensuring the effectiveness of managing, controlling and supervising the material operational risks which are inherent in all types of operations, processes, products, systems and business lines including risks tangent the operating risk, including IT risks, cyber risks, business continuity risks and outsourcing risks.

The risk tolerance declaration. Risk tolerance defines the level of risk that the Bank and the Group is prepared to bear. Determining quantitative and qualitative limits that are based on the risk tolerance takes into account the likelihood of the risks materializing, their predicted impact on the Bank and also the appropriate level of investment to hedge against them. This, while taking into consideration the strategy and business focal point of the Bank and the Group. Nevertheless, the actual exposure could vary in accordance with internal and external factors that cannot be foreseen.

The quantitative limitations are being measured and monitored periodically by the operational risk management department of the risk management wing. During the year 2022, there was an exception to the fraud damage limits in E-Banking in the Group following a fraud incident at IDB Bank. In addition, the "losses from a single event" limits were also exceeded due to the fraud event at IDB Bank. Within the framework of the declaration's annual approval, the tolerance thresholds and limits for events of E-Banking fraud were increased in light of the greater activity over the Bank's digital means.

In addition, it has been determined that the Bank and the Group shall endeavor to form an effective mitigation plan for all the significant risks in the short-term.

The Bank computes the allocation of capital in respect of the operational risk by the standardized approach.

Structure and processes

The Chief Risk Manager bears the overall responsibility for the management of this risk at the Bank and the Group.

First line of defense

Each Division Head is responsible for the management of operational risks inherent in his area of activity. In addition, operating risk controllers serves at all of the Bank's divisions and Groups, the duty of which, among other things, is to assist the division head in managing operating risks, including identification of the risks, their measurement and formation of plans for reducing them. Operating risk controllers communicate with and report to the operational risk management department in the Risk Management Wing and are professionally guided by it.

Second line of defense

The operational risk management department in the Risk Management Wing, which reports to the Chief Risk Manager, is in charge of formulating the operational risk management policy and is responsible of verifying its implementation while providing the necessary tools in this respect, formation of a methodology for identification and measurement of risks, monitoring and reduction of risks and reporting the results to the Operational Risk Managers Committee, the Bank's Management and the Board of Directors. The Committee is also responsible for integrating the culture of managing the operating risks within the units of the Bank and the Group.

The main subsidiary companies have formulated an organizational structure to support the management of their operational risks along the same lines mutatis mutandis. Such an organizational structure enables an efficient and overall Group management of the operational risks in the Group.
Risk management and assimilation of the culture are carried out, inter alia, by means of two forums headed by the Chief Risk Officer, as follows:
Operational risk managers committee. A Management committee headed by the Chief Risk Officer with the participation of additional members of Management meets once in each quarter. The Committee discusses the risk management policy and the risk tolerance prior to their approval by Management and by the Board of Directors, and serves also as the factor which approves the methodology for identifying and quantifying operational risks. In addition, a half-yearly review dealing with E-Banking over communication channels was presented to the committee. Furthermore, the Committee discusses material risks and failure events, if these occur.
Operational risk controllers' Forum. The Forum, headed by the chief risk officer. The Forum meets once in each quarter as a Group forum discussing specific or cross-organization risk issues, cross-organization failure events and enrichment of operational risk controllers acting in the Bank's business lines.

Measurement and reporting systems

Operational risk management system. An IT system for managing the operational risk in the Bank's business and operational processes has been fully deployed at the Bank and at the subsidiaries in Israel. The system enables Group management according to the policy and methodology for the assessment of operational risks, and supports all risk management processes: reporting, management of the risk maps, the process for the reporting of events and their investigation. Assessment of the risks and controls is conducted according to the formed methodology. Using the system, risk center managers conduct risk surveys independently, and in accordance therewith update on a current basis, the risk mappings and manage the risk mitigation plans.
Risk evaluation methodology. The risk evaluation methodology has been formed by the Risk Management Division and is used by the Bank and its subsidiaries in their current evaluation, both of existing risks and of risks involved in new work processes and new products. The methodology is examined periodically in order to ensure its effectiveness and relevance.
Operational risk survey. According to the operational risk management policy, a survey of operational risks has to be performed once every three years or during the course of three years, and which is to be performed by means of a self-assessment (RCSA). The risks survey at the Bank and Group was completed in 2022, being closely accompanied and managed by the divisional controller of each division of the Bank and of the subsidiaries. The survey's format and updated methodology will be defined by Risk Management.
Malfunction in the PayBox Application. For details regarding the malfunction in the PayBox application, see the 2020 Annual Report (p. ___). For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 B item 11.1 to the financial statements as of December 31, 2021. For details regarding proceedings of the Privacy Protection Authority, see "Proceedings regarding Authorities" in the 2021 Annual Report.

Risk mitigation

Operating failure events. Investigating and reporting failure events comprising an integral part of the current risk management in its framework, the managers of risk centers report and investigate failure events that have occurred, draw conclusions and improve and strengthen controls over the various processes. The Bank is setting up a data base concerning the realization of operating failure events based on reports by the Bank's different risk centers. Such data base enables the analysis of failure factors, the treatment of risk centers and assessment of the severity of realized risks.
Current management of operational risks. The Bank examines on an ongoing basis exposure to operational risks and implements measures for the mitigation in the material risks level. The risk centers managers are taking steps towards the implementation of the risk mitigation plans and update on a quarterly basis, the information regarding the progress of implementation of the new controls. The performance status regarding the implementation of the mitigation plans is reported to management and the Board of Directors on a quarterly basis. In addition, the risk

centers managers update the risk maps on a regular basis, following the implementation of controls (information systems, procedures, reports etc.), identify and evaluate risks and controls applying to new work processes or following changes in existing work processes. The internal failure events database enables the validation of the risk evaluation performed by the risk center managers and an examination on a current basis of the necessity for a re-evaluation of the risk.

Mitigating exposure to operating risks through the purchase of insurance. The means applied by the Bank with a view of mitigating exposure to operating risks, include, among other things, the purchase of a designated bank insurance policy that was issued to companies in the Discount Group - within a responsibility limit of US$115 million, that hedges a part of operating risks to which the Bank is exposed.

The Bank's insurance policy includes several relevant sections, namely: (1) Banking insurance section, focusing on events such as embezzlement by Bank employees, monies and valuable assets at the Bank's premises (see below), monies and valuable assets in transit, forgery of checks, forged collateral and forged monies; (2) Computer offences insurance section, focusing on events such as fraudulent or malicious input of electronic data directly into the Bank's computer systems or of a service bureau, or into an electronic money transfer system or to a customer communications system, fraudulent or malicious change or destruction of electronic data; (3) Professional liability insurance section, intended to insure the Bank in respect of its legal obligations to third parties, considering a lawsuit or claim for damages in respect of a financial loss resulting from negligent action, error or omission or betrayal of trust on the part of a Bank employee; (4) Personal deposit boxes insurance intended to insure the Bank in respect of loss or damage to customers' assets, including cash and jewelry, found in personal safe deposit boxes at the Bank's premises within the boundaries of the State of Israel.

With regard to money and valuables on the Bank's premises, it should be noted that the Bank has procured an additional policy, which increases the coverage for money and valuables at the Tel Aviv cash center by an additional US$185 million, beyond that covered by the banking policy.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Bank Group, the Bank had purchased insurance coverage for claims against Directors and Officers within a responsibility limit of US$115 million. In addition, the Bank purchased an "Expanded Fire" policy to insure its property, an insurance covering its liability under law for bodily injury and/or property damage to third parties in the amount of NIS 185 million, and employer liability insurance. As to the matter of the Bank's responsibility under the law for bodily injury of its employees, in the amount of NIS 111 million.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Group, the Bank purchases insurance coverage of US$35 million, for cyber risks and computer failure. This policy includes several relevant chapters, including: (1) responsibility of the Bank under the law towards third parties in respect of leakage of personal data following a cyber event; (2) certain expenses (IT service, legal service, etc.) which the Bank has to bear following a cyber event; (3) consequential loss to the Bank following failure of its computer systems.

The scope of the Bank's insurance coverage has been examined with the assistance of an independent professional advisor and is in compliance with Proper Conduct of Banking Business Directives Nos. 301 and 352.

Fraud and embezzlement risks

As a financial corporation, the Bank holds funds and financial assets of its customers. In operations of this nature, the most basic condition for conducting business is the trust which customers feel towards the Bank. Hence the importance of management of fraud and embezzlement risks.

The management of fraud and embezzlement risks is conducted by the Discount Group as part of the operating risk management. Management of the risk is achieved by three lines of defense:

First line of defense - The business units at the Bank and at the Group also identify fraud and embezzlement risks, on a current basis and within the framework of the operational risk surveys.

As part of the units and also in Risk Management, control systems are employed to locate suspicious activity by employees or outside customers.

Second line of defense - The Operational Risk Management Department in the Risk Management Wing defines the risk management framework by means of a chapter dedicated to the management of fraud and embezzlement risks in the policy document for operational risk management. The policy defines the manner in which these risks are to be managed, monitored, mitigated and reported.

In addition, the Department performs, by means of the Fraud and Embezzlement Management Unit, challenging of the assessment of the relevant risks. The Unit's responsibilities include also the following: raising awareness, current monitoring, by means of a system for identifying unusual activity by employees, and, when necessary, reporting to Internal Audit.

Third line of defense - internal audit as the third control circle, examines the risk surveys and the manner of challenging them, as well as examines the effectiveness of controls. Clear procedures and guidelines have been established as regards the manner of reporting of events suspected of embezzlement. In this respect, a "hot line" to the internal audit is being used, by which Bank employees report suspected/irregular events. As part of this process, the internal audit performs an extensive examination, which includes the issue of an audit report, and where required submitting the case to the disciplinary committee.

The internal audit is taking extensive publicity and drawing conclusions procedures in lectures to field units, executive conferences and various forums and distributes study material of extraordinary events for all the Bank's employees.

It is noted, that in addition to the examinations made following reports being received, the second and third lines of defense carry out initiated current examinations in order to monitor irregular transactions.

In cases where irregular activities are found or suspicion of actions contrary to employee work procedures, treatment of the case is conducted by the Disciplinary Committee, which may decide on termination of employment, reprimand, removal from office, transfer from the unit, etc.

Outsourcing and supplier risks

Outsourcing and supplier risks are part of the operational risk. Against the background of operations being outsourced and due to significant cooperation being undertaken with non-bank entities, in relation to core banking operations, the monitoring and control processes for outsourcing and supplier risk need to be strengthened.

The Bank's preparations for managing the risk, according to Proper Conduct of Banking Business Directive No. 359A, "Outsourcing" include an updated definition of the policy and risk tolerance document, drafting plans for the management of the risk and the conduct of work processes relating to the identification of a significant outsource and determining the manner of the handling thereof, including strengthening the monitoring the control processes in relation to operations, using a risk-based approach.

The material outsourcing risks management policy, due diligence for material service suppliers and Proper Conduct of Banking Business Directives in the matter of outsourcing, are intended to provide proper solution for the management of the risk and for the reduction in exposure to potential risks embedded therein.

Business continuity

The business continuity risk (the risk of the Bank losing the ability to function continuously in stress scenarios and crises), affects all the operations and processes existing at the Bank and upon realization thereof causes the Bank different exposures. Accelerated development exists in recent years in the approach and treatment of business continuity management in organizations in general, and in financial institutions in particular. This development stems both from the implementation of the Basel II guidelines and as a result of local regulatory requirements, including the Bank of Israel, guidelines of the Stock Exchange, the Ministry of Finance and more.

Responsibility for business continuity management[2] in the banking industry lies with many functions in the organization, starting with the Board of Directors and the Bank's Management and ending with the managers and staff of the different units. The business continuity management process is a continuous process, within the framework of which, it is required to perform a comprehensive and advanced process of analyzing the business implications in order to identify essential processes and services, including by means of external suppliers. In this framework, the Bank is required to assess the risks and the potential impact of different disruption scenarios on the operation of the Bank and its reputation.

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2 Business Continuity Management – an overall organizational approach that includes policy lines, standards and procedures, the aim of which is to verify that certain actions can be performed or returned to activity in a timely manner, in the event of disruptions.

The Bank's Business Continuity Management Plan ("BCM") is designed to ensure the continuation of regular banking operations and services defined as vital, during periods of emergency on national and local levels. The plan covers and supports vital business operations, in all their chain of supply, from one end to the other: infrastructure, computer, hardware, software, communications, human resources, essential services provided by suppliers, outsourcing, etc. All these will assure the Bank's continuing business operations under extreme circumstances, while providing an array of services to the Bank's customers at a reasonable level of service.
Layouts and services supporting the corporate and retail networks are at the disposal of customers, as follows: countrywide core branches that are prepared and equipped to continue and provide service during emergencies, backup branches for those damaged, direct banking lanes through telephone, internet communication and application. All these are designed to provide 24 hours a day banking services at any place, a "hot-line" for customers and countrywide automatic banking machines that enable self-service banking operations. In addition, the Bank is able to operate mobile bank branches in emergency situations.
At the basis of the preparations for continued business operations is the backup system established by the Bank for the vital technological infrastructure. The backup layout is based upon: the backup of information systems and technological infrastructure; two computer installations with hot backup; backup for the vital information systems; a third copy information backup; backup of vital installations; backup locations and alternative locations for vital units (dealing room, online banking/Discount TeleBank, and additional vital units); independent energy supply for vital installations; training of emergency teams for activating vital processes, and more.

Policy

The policy paper for the management of business continuity outlines the framework for the managing of business continuity, defines the Bank's solution concept for the confrontation with different crisis events involving business continuity, and forms the basis for a structure maintaining business continuity. The policy relates both to aspects of business continuity emergency situations, and to its routine aspects, and is being updated by the Management when required.
The document defines the targets for the preparation for business continuity management; the organizational structure under everyday and emergency situations; crisis management concept; authority and responsibility of executives in the business continuity layout; methodology for the management of business continuity. The document is approved annually.

Structure and processes

According to Proper Conduct of Banking Business Directive No. 355, the framework for the management of business continuity, includes Business Impact Analysis (BIA) being a dynamic process for the identification of essential processes and services, including those that are interdependent, internal and external key factors and adequate levels of durability. As part of this analysis, different scenarios are tested and assessments are made of the risks and of the potential impact of different disruption scenarios on the operation of the Bank. Also assessed are the risks for the purpose of making appropriate preparations and minimization of the damage.
Exercise. A significant part of maintaining a high preparedness level for business continuity management is the performance of exercises and training. The Bank has devised a multi-annual exercise plan based on different reference scenarios, within the framework of which, work processes, response plans for maintaining business continuity, and the operating concept for the management of crisis situations are being tested.
As part of the Bank's relocation to the new Discount Campus, which includes also the Bank's main computer installations that comply with high international standards (Tier 3), the stability and survival of the Bank's computer infrastructure has been significantly improved.
In view of the growing cyber threat, the Bank invests considerable resources in the formation of plans providing solution for the maintenance of business continuity in case of occurrence of cyber events.

Measurement and reporting systems

The mapping of gaps in the essential processes for business continuity, to the extent existing, the evaluation and monitoring thereof, is being conducted as part of the process of business impact analysis (BIA) and also as part of the current activity framework. Actions for the reduction of gaps are integrated in the multi-annual work plan, reported to Management and the Board of Directors.

Other risks

Information technology risk management

General. The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

Strategy and policy

Policy and strategy documents:
- Information technology policy, the essence of which is managing and operational information technology aspects;
- Information technology risk management policy, the substance of which comprises basic principles for the reduction of exposure of the Group to the realization of these risks;
- Policy regarding the use of cloud computing technology, which defines guidelines for the use of cloud technology.

Structure and processes

The Head of the Technologies Division serves as the information technology risk manager at the Bank and the Group.

Risk management units

First line of defense - Risk management department. The responsibility of the department is to outline, in collaboration with the Risk Management division, the IT risk policy; to guide the computer units at the Bank and at the Group regarding the management of IT risks, and to supervise the implementation of the policy in this matter; to outline control processes designed to assure that exposure to IT risks will not deviate from the determined maximum risk tolerance, and exposure limits determined in accordance therewith and to periodically perform a self-evaluation of the risk and effectiveness of the risk management process.
Operating within the first line of defense is the Information technology risk management committee, which is responsible, among other things, for the examination of the information technology risk management policy, examining material risks and monitoring the application of plans for their mitigation, review of material failure events in the area of IT and the drawing of conclusions and lessons, examination of the determined tolerance threshold for information technology risks, and more.
Second line of defense. The operational risk department within the risk management wing, which operates under the Chief Risk Officer, is responsible for the formation of a framework for the identification and assessment of information technology risks, including verification of the effective risk management regarding significant projects, and an independent assessment of the appropriateness of the preparation made by the information technology group regarding emergency situations and/or stress situations.
In addition, the department is also in charge of monitoring the risk mitigation process and of reporting the risk profile to the Bank's Management and to the Board of Directors. This, in collaboration with the first line units and similarly to the management format of all the operational risks.

The core processes for risk management

The core processes are based on the risk management principles, with the required adjustments to the information technology world, including: the mapping of all of the Bank's systems in order to evaluate the level of importance of each system to the Bank's business activity and to evaluate the existing control environment of the system, assessment of the exposure to the realization of business risks, such as: credit risk, market risk, compliance risks, etc. deriving from a technological failure, and more.
In addition, IT risk surveys and data protection risk surveys are being performed in the systems of the Bank, at intervals that match the criticality of the system and the risk inherent therein.
These processes allow effective focusing on areas and systems that had been identified as having the highest risk of disrupting business operations. They also enable the formation of a multi-annual work plan as well as a rapid adjustment of the risk management strategy and the risk map, according to changes occurring at the Bank and/or in its operation environment.

Reporting

The Head of the Technologies Division reports to Management and to the Board of Directors, at fixed intervals, attainment by the Technologies Division of its commitments regarding performance and on attainment of service and availability indices, deviation from the risk tolerance level, as well as risks of a "very high"/"high" exposure level. An immediate report is submitted in case of a material event, such as: shutdown and material disruptions, cases where material deviation from the risk tolerance level had been identified regarding information technology at the Bank or at the subsidiary companies within the Group, material failure events and corrective action that had been taken in respect thereof, and more.

Business continuity

As part of the Bank's preparations to ensure its business continuity, in its core systems the Bank operates by the "hot backup" method. The meaning of this is that the computers in both sites are updated simultaneously with the entries created at the Bank branches, and accordingly, in the case of disruption occurring in the central computer location, the computer in the secondary site enters into operation without losing any entries.
In addition, an infrastructure for a third copy of data has been established in a third site, using the "hosting" model, which includes all the production data of the Main Frame computer and of the critical system data of the open environments.

Data and cyber protection risks

General

The tremendous technological development in recent years, the Bank's business development strategy in the digital arena and the rise in third-party use of data services expose the Bank to an ever-growing number of cyber threats, as is also the case for the whole financial segment.
The principal potential damage associated with the materialization of cyber threats and data security risks results from compromising privacy and confidentiality of data of the Bank, its customers and its employees, financial loss, data disruption in the systems, harm to the availability and survivability of the systems and data, and harm to the Bank's business and its reputation.
The Bank views securing and protecting the reliability, resilience, availability and survivability of the IT systems and data to be a central goal and invests considerable resources in order to protect its data and systems.
The risk image continues to be affected by the continuation of the Corona pandemic, requiring the expansion of distance work by Bank employees in order to maintain business continuity, resulted in enlarging the area of the Bank vulnerable to attack, and a significant rise in cyber-attacks in Israel's cyberspace by sophisticated players utilizing advanced and effective capabilities.

Strategy and policy

Data protection and cyber defense at the Bank are regulated and directed according to various regulatory provisions, including the Privacy Protection Act and Regulations, the Computers Act, Proper Conduct of Banking Business Directives, and particularly Directives Nos. 357, 361 and 363, on the basis of which, two master documents have been drawn up and approved by Management and the Board of Directors:
A strategy document and cyber protection and data security policy. Set out in this document are the basic principles for cyber defense management, corporate governance and the duties of the various lines of defense, including the coordination and control needed in order to establish an effective defense; the approach to cyber defense and strategy, the establishment of a framework for the management of cyber risks and data protection, and the core risk management processes, including risk identification and assessment, the controls and the reporting processes.
Cyber risk tolerance document. The document defines the tolerance to the risk level, taking into consideration the evaluation of representative scenarios regarding attacks on the Bank. The process of setting the Bank's tolerance limits for cyber risk requires a balance between, continuing to develop the Bank's advanced services in order to add value for its customers and to successfully cope with the competitive environment on the one hand, and the expectation of further deepening and expansion of the cyber threats and of the scope of resources that have to be invested in implementing effective cyber protection.
Except for the protection of the computer system, the defensive actions are directed to provide a response to significant business processes of the Bank. In this way, a defense layer focused on a comprehensive-business viewpoint risk would be stabilized.

Threats in the cyberspace

As a general rule, threats in the cyberspace are threats that may cause a shutdown of systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud. In recent years, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication, including also Internet crime against the banking sector in Israel, including Discount Bank, with the digital channels and self-service instruments being in the center of which.
Notwithstanding the above and in view of adaptations made in recent years to the Bank's protection layout, in 2022, no one or more cybernetic incidents occurred that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.
The Bank acts on a regular basis to map and analyze the threats that might affect its activity in the cyber arena and invests resources in means to protect and cope with such threats.
Four outstanding trends were noted in 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);
- Increased attacks on the part of activist groups. Following the changes taking place in the geopolitical field between Israel and its neighbors, increased attacks by activist groups supporting anti-Israeli activities are noticed with emphasis on attaining accessibility for the control (OT) systems;
- Exploiting weaknesses and carrying out of complex attacks including ransomware attacks – increasing exploitation on the part of factors having financial motivation, is noticed with respect to unknown weaknesses, for which protection updates by software producers had not yet been provided, compared with past years, in which increasing threat came from countries having research resources. This trend may affect the Group, both by damaging one or more material suppliers and by direct damaging of one of the systems of the Group;
- For the first time since the onset of ransomware attacks, the number of global ransomware events was seen to have leveled off; on the other hand there has been a corresponding rise in the number of organized extortion and leakage events, without encryption being an element in the attack.

The means of monitoring operated, took into consideration the increasing external cyber risk and the level of sensitivity of different users, including the level of authorizations of transactions or exposure to customer data.
In 2021, there is an increase in the use of exploiting the unknown weakness by financially motivated parties compared to previous years in which countries with resources for research took advantage of such weaknesses.

Structure and processes

First line of defense. A data and cyber protection manager is directly subject to the Head of the Technologies Division and he is responsible for outlining the data security and cyber protection policy for the Bank and Group, in order to implement the protection.
Attainment of the data and cyber protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of incidents.
Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and information technology risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.
Second line of defense. The Operational Risks Department, at the Risk Management Wing, which is accountable to the Chief Risk Officer, is in charge of drawing up a framework for identifying and assessing the cyber risks and for the tracking of the process for their mitigation, and for delivering and reports to Management and the Board of Directors regarding the risk profile. This, in addition to partnering the first line of defense in instilling the cyber risks management culture within the units of the Bank and the Group, similarly to the format of management of all operational risks.
Third line of defense. In the framework of the Internal Audit Division, a Wing is engaged in the technologies and digital field, performing current audits in matters of data protection and cyber defense, as well as combining these aspects with the activity of the Internal Audit Division, where required.
Subsidiaries. The subsidiaries have established an organizational structure that supports their cyber risk management, in a similar spirit, mutatis mutandis. The aforesaid organizational structure enables the comprehensive and efficient group management of cyber risks at the Group.

Protection of the Bank's sites

According to the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated at the Bank. Protection of the marketing sites and of the Bank's operations is continuous.
The Bank operates a data protection center that operates continuously throughout the year (24 hours per day 365 days per year) the object of which is identifying risks breaches, exposures and vulnerabilities in the data protection system, and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). Furthermore, the Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/ communication/and services providing information regarding attacks and hostile addresses. Infrastructure systems are monitored and reported to the data protection center.
As part of risk management, the Bank investigates incidents, gains insights and draws conclusions. According to the risk outline and according to Proper Conduct of Banking Business Directives Nos. 357 and 361, the Bank conducts at required frequencies, risk surveys and penetration tests, following which, mitigation measures are being applied. The treatment of identified deficiencies and gaps, whether discovered by the surveys or by investigation of events, is conducted according to prioritization, in a risk based approach, which is integrated in the work plan.
Data protection and cyber defense activities are being implemented according to the work plan, as approved by the Bank's Management and Board of Directors.
Also including systems and projects under development and maintenance which are being closely assisted by professional mentors.

The Bank conducts current operations for increasing awareness and improvement of the organizational culture from the aspect of data protection, which among other things include training, publication of policy documents, manifests and marketing tools. The Bank has established in procedures most of its operations and processes, and the data protection unit at the Bank is involved in the approval of all the Bank's procedures in order to ensure the early identification of operations causing data protection risks and cyber defense.

Mitigating the exposure to cyber risk through purchasing insurance. For details, see "Operational risks" above.

Aspects of physical safety, to the extent that they might be connected to data protection, are managed and implemented by the Bank's security officer, in conjunction with the data protection manager.

Environmental and climate risks

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

Environmental risks also include climate risks.

Climate risks are customarily divided into physical and transition risks.

- Physical risks are risks of damage resulting from extreme events such as floods and fires. Such risks can result in liquidity risk.
- Transition risks are risks of harm to economic activity or to asset values due to climate regulation and transition to a low carbon economy. Said transition could bring about the materialization of market risks following a decline in the value of certain economic activity, such as in the fossil fuels value chain.

Banking corporations could be exposed to environmental risks in various aspects of their operations. Such risks might be included within the framework of other risks, such as: credit risk, market risk, operational risk, legal risk, and liquidity risk.

Background

Recently, the subject of environmental and climate risks management is receiving high regulatory attention, stemming from the understanding that realization of environmental and climate risks may impact the banking system, and in extreme cases lead also to global and systems effects. Accordingly, regulators in Israel and around the world are making progress with the regulation of this matter, with a view of enabling identification, monitoring and management of the risks, when the banking system is expected to develop tools for the management of these risks, including determination of the governance framework, strategy, risk appetite, management of the risks derived from operations and management of transition risks.

In 2009, following a regulatory expectations letter in the matter, addressed to the banking system, regulation of the activity of the Bank in the matter has been introduced, including as part of the credit policy and of the specific procedures for the approval of credit.

On December 1, 2020, the Supervisor of Banks addressed a letter to banking corporations and credit card companies in the matter of management of environmental risks. The Supervisor of Banks places great importance on the promotion of the subject of environmental risks, and views the banking corporations as important partners in the transition to sustainable environmental economy, inter alia, by means of forming the appetite for environmental risk, credit policy, investments, allocation of capital to "green" finance and investment activity, and more.

Within the framework of a circular by the Bank of Israel dated December 2, 2021, regarding disclosure to the public of environmental aspects, society and governance (ESG), it is, inter alia, required to examine the need to broaden disclosure of risks, to which the Bank is exposed in this area, including due to developments related to climate changes and transition risks, and in order to reflect material changes in the mode of management of such risks, and include, inter alia, quantitative indices for the measurement of exposure to such risks.

The Supervisor of Bank is presently formulating principles for the effective management of climate related financial risks. The draft Directive proposes principles according to which a banking corporation would be required to act in order to manage in an optimal way its exposure to climate related financial risks. The draft Directive is based on a document published by the Basel Committee in June 2022, the title of which is: "Principles for the effective management and supervision of climate related financial risks".

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

The approach of the Bank

Environmental and climate aspects are being examined along two central pivots:
Environmental and climate risks relating to the operations of the Bank for itself. Discount Bank attributes importance and relevancy to the subject of the environment, both regarding the social field and regarding the economic field, publishing for over a decade, the principal actions taken in this respect in a Social, Environmental and Governance (ESG) report to the public. In its operation, the Bank endeavors to create a positive influence in aspects of commitment to and involvement in the community, variety and containment in employment, responsible management of the chain of supply, training and development of employees, savings and efficiency in its routine operations and reduction of the carbon footprint of the Bank in its operations, while changing to "green" energy and construction. The Bank has adopted a policy of maintaining a fair balance between business operations and protection of the environment, and is committed to present continuing improvement in its environmental actions, without compromising the quality of service rendered to its customers.
The Bank has defined as Super-goals on this subject that it is committed to the principle of sustainable development, committed to the prevention of environmental damage and to the continuous improvement in environmental actions, stands for an initiatory and proactive approach for the reduction of damaging effects on the environment in the field of assets, and examines on a current basis alternatives for the saving of energy with respect to operating electrical equipment and air-conditioning. The Bank monitors its carbon footprint and other direct environmental impacts resulting from its operations, and voluntarily reports to the Ministry of Environmental Protection regarding its carbon footprint (at this stage, without measuring these aspects regarding the chain of supply).
The Discount Group began in 2016 the construction of the Discount Campus, intended to house the head offices of Discount Bank, MDB and of ICC, including the computer installations. The Discount Campus had been planned according to strict environmental standards, being based on the principles of green construction and had been qualified according to the LEED V4 grating of the US Board of Green Construction. The planning and construction team endeavors to obtain a green rating of LEED GOLD. The high accessibility level, construction under green standards and the gathering of the head offices of companies in one group campus, alongside integration of technological means for the holding of online meetings and training courses, would allow savings in time and energy resources. Furthermore, the Bank studies also the environmental effects regarding the existing buildings, as a basis for taking decisions in matters of construction and properties (integration of green criteria, both as regards engineering planning and in choosing materials and environmental controls, which include measurement and monitoring of radiation in Bank premises).
Environmental and climate risks management regarding business activity and transactions with customers.
This pivot is being regulated since 2009, and in this framework, the Discount Group applies a policy, according to which, the examination of the environmental risk will comprise a layer in the total risks being examined by the corporation upon extending credit and in the current management of credit.
Financing agreements made by the Bank require customers to declare that they operate and conduct their business according to provisions of environment laws, and undertake to continue doing so all along the period of the loan. Furthermore, customers undertake to inform the Bank, immediately upon receiving notice, of any environmental claim against them, as well as regarding circumstances that might be considered as violation of any environmental law.
The Bank has an orderly credit methodology regarding environmental risks, intended to monitor credit loss risks, which might be caused as a result of directives relating to environmental hazard and enforcement of such directives (e.g.: deterioration in the business condition of a customer due to penalties imposed for noncompliance with the provisions of the law). As part of this methodology, an evaluation process of the level of environmental risk had been defined in respect of customers in sectors that might be exposed to environmental risks, and of the risk management quality of such customers. This process is conducted upon the granting of credit and upon the periodic review of the quality of customers and of the collateral provided by them and according to the materiality level, with special reference to customers having a high potential for environmental risk.
The methodology for identifying environmental risks includes, inter alia, mapping the environmental risk potential by

economic sectors, analyzing and referencing specific environmental risk aspects at the borrower level, within the framework of the examination and approval processes for credit applications and major sectoral exposures that have been identified as being exposed to a higher level of environmental risk, such as sectors in the fields of mining and quarrying, energy production, industrial chemicals, the food industry, etc., as well as within the framework of the ongoing management of the risk.

Concurrently with the preparations made by the Bank for the upgrading of environmental and climate risks management, the Bank realizes that climate changes comprise not only risk but also opportunities regarding renewable energies – an opportunity to broaden credit activity on the one hand, and assist in the national effort to reduce carbon emission and struggle against climate changes on the other hand.

As part of the overall process of environmental risks management, the Bank offers credit to green businesses, everything subject to compliance with rules for the granting of credit prevailing at the Bank, including examination of the repayment ability of the borrower. "Green credit" is defined as credit granted to finance the operations of a corporation producing green products contributing to the protection of the environment, credit to a corporation conducting a green production process that protects the environment, credit granted for the establishment of a green activity, including the purchase of green machinery and equipment, and for the upgrading of production systems to such that protect the environment.

The Bank has a specific policy regarding the granting of credit to the solar systems field, both to business consumers and to private consumers. Within the framework of this policy, processes had been determined, inter alia, for the granting of credit, as well as for controls and specific collateral for this area. The Bank's credit exposure in respect of the financing of projects involving solar energy amounted at December 31, 2022 to NIS 1,902 million, as compared to NIS 890 million at December 31, 2021. This, over and above the finance granted by the Bank to corporations operating in this field.

Alongside the environmental and climate aspects management pivot relating to the credit activity of the Bank with its customers, environmental and climate aspects have recently been integrated into the investment policy of the Bank, while combining responsible investment considerations, which take into account in addition to economic gains from the investment also the overall social welfare, including definition of the need to examine ESG indices, published by rating agencies and/or another accepted ESG index, as an integral part of investment considerations, which include increasing the RAROC requirements in respect of investments of a high ESG index and, of course, subject to financing principles and the detailed policy of the Bank.

In addition, the Bank prepares for the examination of the effects of environmental and climate aspects as part of the capital adequacy assessment processes and of the capital requirements stated in the second pillar.

In conclusion, the Bank recognizes the importance of this issue and the implications which this might have on the Bank from the aspect of exposure to financial and other risks, and has prepared for a higher level of environmental and climate risk management, while examining strategy formulation, management frameworks and international reporting, as well as by setting supporting, quantitative goals.

For optimal management and promotion of the issue in the Bank, a designated function has been established at the Risk Management Division for the handling of the environment and climate risks issues. In addition, the Bank had conducted a survey of gaps as compared with the practice and has formulated a work plan for the comprehensive management of the environmental risks, including climate risks, based upon a study of existing trends in this field.

In 2023, the Bank intends to continue and promote its readiness in the field of climate risk management, while monitoring and studying practices accepted globally and their implementation as related to banking business (such as the TCFD reports and the measurement of the carbon footprint of the credit portfolio).

Legal risks

General. A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract, by ignorance of the provisions of the law, by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.

The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.

According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk. The operational risk is a risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.
The principal risk factors for legal risk exposure: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, and non-compliance with the law and/or regulations.
The activity of the Bank is regulated by various regulatory provisions and by legislation, regulations and rules imposing on the Bank various duties and restrictions regarding the areas of operation and sources of income, on the part of the different regulatory authorities to which the Bank is subject within the framework of its operations, this, inter alia, due to its status as a "banking corporation".
Any action in contravention of these instructions or the non-implementation of which, may expose the Bank to legal risks.
The Bank and the subsidiaries under its control are exposed to frequent changes in legislation and various regulatory directives, which expose the Bank and its subsidiaries to risks involved in frequent changes in work procedures and to costs involved in the preparations required for the implementation of the relevant directives.

Management policy of the legal risk

The Bank has a Group legal risk management policy, which is updated from time to time. The last update of the policy was made and approved by the Bank's Board of Directors in November 2022.
The Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.
The objective of the policy is to outline a framework for managing the legal risks of the Bank and of the Discount Group companies, through establishing the areas of responsibility and authority of the various organs involved in the risk management and monitoring, by way of determining Group standards for the management of legal risk, and the regularization of the manner of managing legal risks, among other, by way of identifying and locating the legal risks, the minimization of which and preventing their reoccurrence.
Within the framework of the management of legal risks, the Bank assembles and digests information regarding legal risks at the Bank and the Group, including information regarding changes in existing legislation and/or judgment updates having material implications on the Bank's operation, as well as monitors claims and legal proceedings in which the Bank and its subsidiary companies are involved.
Within this framework, a current follow-up is performed of changes in the laws and regulations that have a material impact upon the operations of the Bank and companies under its control, in order to prepare for their implementation and reduce exposure that might arise from the non-compliance thereof.
Within the framework of updating the Group's legal risk management policy, it was, inter alia, decided in November 2022, that management of the regulatory risk shall be conducted by the Legal Consul Division, though managed separately from the legal risk.
The regulatory risk is focused on the identification and the monitoring of legislation proceedings and on draft directives of the Bank of Israel and the timely bringing thereof to the attention of the relevant functions at the Bank, with the aim of properly analyzing the impact of such proceedings upon the Bank, and ensuring the initiation by the Group of the required proper preparations.

Declaration of tolerance to legal risks

Due to the nature of legal risks, only qualitative limitations have been set as regards their acceptance.
The Discount Group shall not conduct operations, which might lead to conscious exposure to offences or violation of the law and regulations, and which might be followed by criminal proceedings and adoption of criminal or administrative sanctions against the Bank and/or the Discount Group or against any of its employees or against officers of the Bank and/or the Group, within the framework of fulfilling their duties at the Bank and the Group and for them.

In relation to the legal risk that might have business implications only, the tolerance of the Discount Group for the legal risk shall be derived from the cross organizational implications of the risk and the reputation aspects involved in this risk.

Structure and process for legal risk management

The Chief Legal Adviser is the chief legal risk manager at the Bank and at the Group.
In order to implement the legal risk management policy forums, committees and procedures the duty of which is to examine exposure to legal risk (potential or realized) were established, and the manner of treatment thereof, performance of constant monitoring of changes in the law, regulation and judicial decisions, which may have material implications on the Bank's operation. Where required, representatives of the Bank's subsidiaries participate in these forums and committees.
In addition to that discussed above, the Bank and the Group have established reporting procedures regarding exposure to legal risks (potential or realized), including reports regarding law and regulation.

Core processes in respect of legal risk management

The legal advisory division maintains a chain of core processes designed to support the identification, assessment, monitoring and mitigation of material legal exposure.
As part of the legal risk management policy a duty, among other things, has been imposed on the Bank and on its group companies to act according to the current legal counseling and maintain a solid reporting infrastructure as regards exposure to legal risk.

Lines of defense for legal risk management

Legal risk is being managed within the framework of three defense lines, to which are added management and control operations by the Bank's Management and by the Board of Directors.
First line of defense – includes the business functions, who make decisions which might have a legal risk, which are responsible for the identification of legal risks and for the reporting thereof, as well as establishing supervision and control mechanisms for legal risk management at the units under their responsibility.
Second line of defense – includes the Chief Legal Adviser, the risk management committee of The legal advisory division and lawyers of the division trusted with the management, implementation and integration of the legal risk management policy, as approved by the Bank's Board of Directors and the risk management division which is responsible for the methodological guidance in the field of risk management and for providing tools supporting the legal risk management procedures.
Third line of defense – includes the internal audit division. The internal audit is responsible for providing its own independent assessment of the extent of effectiveness of the implementation of the processes and procedures for the management of legal risks.

Compliance risks

Compliance risk is the risk of exposure of the banking corporation to judicial or regulatory sanctions (including aspects of fairness and integrity), to a material financial loss, to impaired reputation and to criminal liability imposed on the bank and/or on officers thereof, resulting from failure to comply with legal and regulatory directives.
Compliance risk at the Bank is being managed by the Chief Compliance Officer when with respect to consumer regulations, compliance risk is managed by the compliance function, and with respect to other than consumer regulations, by compliance risk officers of the different divisions. This, according to Proper Conduct of Banking Business Directive No. 308 (with respect to regulations in the matter of money laundering and finance of terror prohibition, see below "Officer responsible for the fulfillment of duties concerning anti-money laundering aspects").
The Chief Compliance Officer is administratively subject to the Chief Risk Officer.

The operations of the Bank and of its subsidiaries are subject to various regulatory instructions (laws, regulations, orders and directives regulating banking operations in Israel with respect to bank/customer relations), both in areas of banking activity and in other areas.

New lines of business and/or new products of the Bank, frequent changes in regulation and the numerous new regulatory directives, which impose duties on the Bank and on its subsidiary companies regarding existing or new lines of business, require adaptation of the infrastructure supporting the duties deriving there from.

Policy document regarding management of compliance risk. The Group policy document for the management of the compliance risk has been approved by the Bank's Board of Directors, all according to the Proper Conduct of Banking Business Directive No. 308. The Group policy document has been sent to the material subsidiaries in order to be implemented with the necessary modifications. The policy document establishes basic principles taken from the Basel documents regarding compliance aspects and corporate governance principles. The document defines the structure of the lines of defense supporting the management of compliance risk and areas of responsibility, the methodology for assessing the compliance risk in its broad sense and the tools that will be made available to the employees details the main core procedures of the operation of the compliance officer and the various interfaces, as well as the principles for the management of Group risks.

Supporting infrastructure. Different kinds of infrastructure exist at the Bank to verify implementation of the regulation – computer, control, integration (procedures) and training infrastructure. As part of the examination of a new activity or a new product or a new regulation or an update to a regulatory directive, examinations are performed with respect to the infrastructure supporting the activity/product/regulation and its agreement with the risk deriving from the activity/product/regulation.

A study of the Bank's infrastructures was performed at the end of 2013. As part of the study, the regulatory consumer directives that apply to the Bank were mapped, as were the infrastructures for their implementation. As a result of the study's findings, mitigation plans for the mitigation of the compliance risk were defined. The Compliance Unit monitors the implementation of the mitigation plans and the establishment of appropriate infrastructures. In recent years the survey is being conducted on a current basis and in a risk based manner.

The Bank and the Group operate a mechanized system for the management of compliance risk, which enables the management of the risk in a risk based fashion founded on the products of the infrastructure survey that had been performed.

An infrastructure of procedures exists at the Bank, that is intended to bring about enforcement of the compliance with the various requirements of the regulatory directives in general and the consumer regulations in particular. The procedures are updated from time to time according to the regulatory directives and according to the various activities performed by the Bank. Concurrently, and to the extent necessary, the supporting systems are updated with the said regulatory provisions within various activities are being updated. In addition, in order to increase awareness to the importance of compliance with the provisions of the law and regulation, the Bank conducts study sessions on the subjects of compliance among the staff, including managers in general, and of compliance with the consumer regulatory instructions relevant to the work environment of specialized groups of employees in particular.

Control and supervision. Compliance with the provisions of the regulations are enforced on a regular basis by means of various control and supervision systems according to annual plans for control performance - the compliance officer, compliance unit, the prohibition of money laundering unit and the consulting control and enforcement unit, compliance officers, compliance trustees and internal audit. With a view of improving control mechanisms and tightening supervision over compliance to regulatory provisions, as stated, including in the matter of prohibition of money laundering and the finance of terror, the Bank has appointed Compliance Officers, compliance trustees at various organizational levels (branches, regions, divisions, as the case may be).

The internal audit constantly and continuously audits all areas of operation of the Bank. For details of the activities of the internal audit, see the section "The internal audit in the Group" in the 2019 Annual Report.

Compliance officer. According to Proper Conduct of Banking Business Directive No. 308, the compliance officer is responsible for coordinating the treatment of compliance by the Bank with the provisions of the law, in order to assist senior Management in the effective management of compliance risks facing the Bank, including anti-money laundering issues.

The Chief Compliance Officer at the Bank, a senior executive responsible to an Executive Vice President coordinates and manages the field of compliance and the field of prohibition of money laundering and the finance of terror, within the framework of the compliance and money laundering prohibition department as part of the risk management division.

The Chief Compliance Officer acts in this role also at several subsidiary companies of the Bank. Most of the subsidiaries in Israel and abroad have appointed their own compliance officers according to the said instruction, and the Chief Compliance Officer maintains communication with them on a regular basis. Between the compliance function at the Bank and the compliance functions at the subsidiary companies, an interface exists for the purpose of updating and coordination within the framework of which, among other things, operates a permanent forum of compliance officers of the Group in Israel, which convenes in each quarter. In addition, action is being taken to tighten the interface with the compliance function at IDB Bank.

For the purpose of his work, the Chief Compliance Officer is assisted by the compliance committee that meets once in every quarter.

The Chief Compliance Officer monitors the Bank's preparations for the implementation of the duties imposed on it under the Provisions of the law, involved in an active manner in the preparations for a new activity or a new product at the Bank, for the purpose of verifying compliance of the Bank with the said duties relevant to the Bank's new activity, and monitors the rectification of various deficiencies in complying with the consumer instructions. The Chief Compliance Officer submits quarterly reports to Management of the Bank and to the subsidiary companies at which he acts as compliance officer. In addition, the Chief Compliance Officer submits to the Bank's President & CEO, to the CEO's of the said subsidiaries and to their Boards of Directors, an annual report summarizing his operations.

Officer responsible for the fulfillment of duties concerning anti-money laundering and the finance of terror aspects being an additional duty performed by the Chief Compliance Officer, who is appointed for this duty under item 8 of the Prohibition of Money Laundering Act (hereunder: "the Act") and related regulations, and he is responsible for the fulfillment of the duties imposed on the Bank with respect to prohibition of money laundering and the financing of terror activities.

The money laundering and finance of terror risks comprise the risk of damage caused to the Bank following violation of duties under legal and regulatory instructions applying to the financial sector in this area, including Proper Conduct of Banking Business Directive No. 411, various instructions of the Supervisor of Banks and due to the non-application of relevant international standards relating to this field. Noncompliance with such duties might expose the Bank and/or the Group to monetary sanctions, to the imposition of criminal responsibility on the Bank and its employees and to reputation risks having significant implications.

As stated, the Prohibition of Money Laundering and the Finance of Terror unit forms part of the compliance department in the Bank's risk management group.

The subsidiaries in Israel as well as the Bank's overseas extensions that are subject to this requirement, have also appointed an officer responsible, as required by law.

The party responsible for the prohibition of money laundering is responsible for establishing and managing the infrastructures needed in order to comply with the legal provisions to which the Bank is subject, including performing an annual risk assessment with regard to the prohibition of money laundering and the financing of terror, drafting work procedures, setting up a computerized support infrastructure, assessing controls, and developing training and assimilation arrays. In addition, said party is responsible for submitting reports to the Money Laundering Prohibition Authority, with respect to activity that has to be reported according to the law. Moreover, once every six months, the responsible party sends a compliance risks report to the Bank of Israel in conformity with Reporting to the Supervision Directive No. 825.

The Bank is assisted by a dedicated computerized system for the purpose of monitoring transactions that appear to be irregular and require to be reported, this being in addition to the ongoing computerized monitoring of transactions according to a risk-based approach.

The Bank conducts a variety of ongoing training and assimilation activities in the various units in order to raise awareness and increase knowledge with regard to these topics.

The officer in charge of money laundering prohibition communicates with the subsidiaries in Israel and abroad for the purpose of monitoring the implementation of the Bank's policy and regulatory directives in this area on a Group basis.

See "Prohibition of Money Laundering Law and Prohibition of the Financing of Terror Law" under "Legislation and supervision" in the 2019 Annual Report regarding legislation in the matter of money laundering.

Included within the framework of managing money laundering and terror financing risks are risks resulting from relations with Iran or with enemy states. The Bank stringently endeavors to comply with the statutory provisions in this regard, including the provisions of the Prohibition of Money Laundering Act, the Trading with the Enemy Ordinance, the Counter-Terrorism Act and the Countering Iran's Nuclear Program Act, and – to the best of its knowledge – it has no relations, either directly or indirectly, with enemy states and, accordingly, it has no material exposure with respect to such relations.
As part of compliance risk management, risks arising from international sanctions and from scans against declared lists are included. The Bank maintains systems for scaning against declared listings and declared territories and takes diverse measures to ensure that its activity does not contravene the international sanctions (for additional details, see "Exposure to Russia and the Ukraine" in the "Risks Review" chapter of the Board of Directors Report).
Group policy regarding prohibition of money laundering and the finance of terror. A Group policy is updated and approved by the Board of Directors in each year. The policy is applied with the required modifications to the subsidiary companies and the overseas extensions. The policy document determines the Group's standards with respect to money laundering and the finance of terror and international sanctions, as well as principles for management of this risk on a Group basis. The aim of the policy is to verify that the activity of the Bank and of its subsidiary companies is conducted according to all regulatory provisions in the matter.
Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.
On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.
On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021, which later on, was extended until May 31, 2021. Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.
On the background of the delay in the start of operation of the Correspondence Government Company, that had been established but has not yet begun operations for providing services for banks operating in areas of the Palestinian Authority, the validity of the letters of indemnity and immunity has been extended twice more, until March 31, 2023.

At the request of the Bank and MDB, an amended letter of indemnity was received on February 9, 2023, by which, inter alia, the State is committed to indemnify the Bank and MDB in an amount of up to NIS 2 billion, in respect of each indemnifiable event. The commitment of the State to indemnify is subject to limits and terms that the banks have to abide with, similarly to the limits and terms stated in the original letter of indemnity. The amended letter of indemnity is valid until March 31, 2023.

It is noted that during 2022, a draft Proper Conduct of Banking Business Directive was published, determining which of the provisions of the Proper Conduct of Banking Business Directives would apply to the Correspondence Company when it starts operations. Also published was a Memorandum of the Correspondence Services Bill, which would regulate the activity of the Company.

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

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

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

Internal enforcement

The Improvement of Enforcement Procedures at the Israeli Securities Authority (Legislation Amendments) Act, 2011, also grants the Israeli Securities Authority administrative enforcement authority as regards individuals and corporations in respect of violations of the Securities Laws, including the Securities Law, the Regularizing of Engagement in Investment Consultancy Law and the Mutual Investment Trust Law.

The Capital Market Enforcement Intensification Act (Legislation amendments) 2011, grants the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance administrative enquiry powers for the purpose of clarifying the existence of violations of supervisory Acts as regards insurance, provident fund and pension consulting, in order to ensure the implementation and enforcement of supervisory Acts, similarly to the administrative enforcement powers granted to the Israel Securities Authority as stated. The supervisory Acts regarding insurance and provident funds establish the authority of the Commissioner with respect to the supervision and administrative enquiry, as well as regulations regarding the imposition of monetary sanctions. With respect to the Pension Consulting Act, a more limited amendment was established, in that it does not contain regulations for the imposition of monetary sanctions.

The Bank's Management and Board of Directors have approved a comprehensive plan of action, subjected to a timetable, for the formation of an internal enforcement plan, suitable for the Bank and for the Group, having regard to the criteria published by the Israeli Securities Authority on the matter and to the relevant regulatory requirements, taking into consideration to the procedures and processes existing at the Bank. The Bank has completed its preparations in this matter.
The enforcement unit operates within the Risk Management Division.

Conduct risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. The conduct risk, including fairness, decency, transparency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Exposure to cross-border risks

General

The Bank operates in an environment of changing global regulation, inter alia, an extra-territorial enforcement activity is conducted with respect to reporting duties and the payment of taxes of customers who manage their accounts outside their country of residence.
In view of this global trend, the Bank is managing the risk involved in maintaining accounts of foreign residents, with an emphasis on the risk that such accounts include funds and assets arising from tax evasions or from income that had not been reported as required to the tax authorities in Israel or abroad in particular.
The Bank is implementing the requirements applying to it following changes in regulation and enforcement, including, inter alia, the Amendment to the Income Tax Ordinance (No. 227), the Amendment to the Anti-Money Laundering Act (No. 16), update of Proper Conduct of Banking Business Directive No. 411 in the matter of "Management of prohibition of money laundering and finance of terror risks", enactment of Income Tax Regulations (Implementation of the FATCA agreement) and Income Tax Regulations (Application of a uniform Standard for reporting and examination of the propriety of information regarding financial accounts), which establish procedures for the automated exchange of information regarding financial accounts (CRS), published by the Organization for Economic Cooperation and Development (OECD).

The Bank's policy with respect to cross-border risks and accounts of foreign residents

The Group policy document regarding cross-border risks management regularizes the aspects relating to the management of cross-border risks at the Bank and at the Group. The policy includes a statement of risk appetite relating to the management of declared funds of customers including foreign resident customers, with an emphasis on the implementation of the FATCA regulations regarding U.S. customers and the implementation of the provisions of CRS regulations for the automatic exchange of information, this in line with the guidelines of the Supervisor of Banks in the matter. The policy document also relates to compliance by Israeli resident customers of the Bank or of its extensions abroad with Israeli tax laws. The policy document details the organizational structure of the factors involved in managing and monitoring the risk. In addition, the policy document refers also to the circular of the Supervisor of Banks in the matter of "management of risks arising from cross-border operations of customers", mentioned below.
Another part of the policy document relates to the management of the risks pertaining to cross-border activity of the Bank and its Israeli subsidiaries with foreign resident customers located overseas, and sometimes even located in Israel, and also pertaining to the Bank's overseas activity, as a result of the application of foreign law to the aforesaid activity, either according to the location of the activity or according to the customer's country of residence. In order

to mitigate the exposure to risks resulting from cross-border activity as aforesaid, and to avoid violating the relevant foreign law and the possible implications thereof, the Bank takes steps, from a risk-based perspective, to identify and examine the foreign legal provisions relevant to its activity.

The policy document has been adopted by the relevant subsidiaries in the Group, and is updated once yearly.

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 an examination, the updated policy was applied to all foreign residents from all world countries.

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

The FATCA legislation

Following the FATCA legislation in the U.S. and its adoption by Israeli law, the Bank implements the instructions at the Bank and at the relevant subsidiaries in the Group.

The Income Tax Ordinance was amended in 2016 with the aim of integrating into the Israeli law the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, as well as to implement the AEOI/CRS exchange of information agreements of the OECD. Following the amendment of the Ordinance, regulations required by power thereof were also published.

The Order and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. In addition, the Acts determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof.

Exposure to cross-border risks relating to activities of U.S. customers

As detailed below, the Bank is adopting a series of measures for the management of the risk involved in its operations with its U.S. customers.

Providing securities services to American customers. According to the US regulation, the Bank has adopted a policy of refusing to offer securities services to customers having a US affiliation (new and existing), and prohibiting the use of U.S. communication services for the purpose of granting securities services to persons residing in U.S. and appropriate guidelines have been determined in the matter within the framework of procedures applying to the operations of the Bank and of the relevant subsidiaries in the Group. This policy has been included in the cross-border risk management policy document, as discussed above.

Within the framework of the management of risks stemming from cross-border activity of customers, the Bank applies restrictions on securities activity also for residents of other foreign countries.

Actions taken by the Bank in respect of operations by U.S. customers

The Bank serves many customers in the ordinary course of business, including customers who are U.S. citizens and/or U.S. residents. As part of its activity, the Bank manages the risks and exposure deriving from operations of the Bank's foreign customers, including customers who are U.S. citizens and U.S. residents, as well as risks deriving from the application of foreign legislation to the Bank's operations. As stated, management of the exposures and risks is conducted by means of policy, procedures and controls.

Within the framework of the Bank's policy and procedures, detailed instructions have been given to Bank employees as regards everything relating to transactions involving accounts of U.S. customers, which might expose the Bank to compliance risks. In this respect, the Bank does not permit its employees to hold meetings with customers in the U.S., prohibits the providing of tax advisory services to U.S. customers and advising customers on how to evade the payment of taxes, prohibits referring customers for the purpose of obtaining advice the aim of which is tax evasion and does not permit any assistance leading to the violation of any law.

As stated above, the Bank applies the FATCA legislation, as adopted in Israel. Following the application of the FATCA legislation, the Bank conducts identification and regulation processes of existing customers who had been identified as U.S. Persons according to the time schedule stated in the legislation, requires from its new U.S. Persons to sign the W-9 Form and a declaration of their compliance with the reporting duties, and also the waiver of confidentiality in respect thereof.

Implementation of automatic exchange of information according to the CRS of the OECD

In February 2014, the OECD published a document incorporating an agreement and standards for the automatic exchange of information (AEOI) by financial institutions, operating in countries which would join the agreement, regarding accounts managed by them. This document determined a reporting standard (Common Reporting Standard – CRS), and defined processes for the identification and classification of new and existing customers on the basis of residency, as well as the duty and contents of reporting.

Since the publication, many countries, both within and without the OECD, have committed to adopt the CRS, in order to participate in the automatic exchange of information. In October 2014, the Government of Israel announced that the State of Israel would adopt the CRS and in 2016, the Income Tax Ordinance was amended accordingly.

The Bank has applied the changes in the Israeli laws and acted according to the directives of the Supervisor of Banks in the matter. In this respect, inter alia, a declaration has been added to the account opening documents, with respect to the countries of residence of the customer, which includes also a waiver regarding confidentiality with respect to foreign tax authorities, and restrictions have been imposed on the activities of customers who do not cooperate with the Bank in this matter. The Bank is implementing the automatic exchange of information according to the Income Tax Regulations (the application of a common reporting standard and examination of the appropriateness of the information regarding financial accounts), 2019, which were published on February 6, 2019. The Bank continues the implementation of the CRS, while integrating the requirements arising from the legislation and regulation.

A qualified intermediary (QI) agreement for the purpose of providing U.S. securities services

In the year 2002, the Bank entered into a qualified intermediary agreement with the U.S. tax authorities, for the purpose of providing U.S. securities services ("the QI agreement") as a "non-withholding QI". For this purpose, the Bank has entered into an agreement with a factor serving as the withholding QI on its behalf.

A new QI agreement was published in July 2014, within the framework of which commitments were added and updated with respect to implementing and complying the terms of the agreement. In March 2017, the Bank completed the renewal of the new QI agreement with the IRS. The Bank is acting towards the implementation of the QI agreement, including maintaining and implementing a compliance plan.

During the first quarter of the year, the Bank had completed a periodic review and a declaration of a Responsible Officer with respect to the QI to the IRS for 2020.

Foreign resident customers

In the past year and a half, 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 countries, this, in a risk-based approach.

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

Changes in the business environment, uncertainty derived from the macro economic environment and changes in the regulatory and internal environment of the Group, alongside developments in digitization and innovation and changes in customer preferences, all create challenges to the model of operation of traditional banking and require strategic risk management in order to maintain the competitive ability of the Group and its position as a leading player in the local banking system.

The strategic risk is a business risk stemming from the business activity and from the competitive environment in which the Group operates (including regulation), in acting (such as wrong business decisions or inadequate application) or omission (such as lack of response to changes in competition), which, if realized, may significantly damage profitability, equity capital and/or the long-term positioning of the Discount Group, and prevent the Group from maintaining its position in the banking industry.

The Head of the Strategy, Finance and Holdings Division serves as the Group's strategic risk manager and has the supreme responsibility for the management of these risks at the Bank and at the Group. His professional guidelines are binding on the companies in the Discount Group. The risk manager is responsible for the identification, assessment, monitoring, control and reporting of the strategic risk profile and for the adoption of measures for mitigating the risks in the Group, this according to the strategy, the risk management policy and the risk appetite that were outlined by the Board of Directors.

The Group operates according to the multi-year strategic plan and the supportive computerization plan, which is revised annually with a view of providing a response to identified trends in the competitive environment in Israel and abroad. In each year, prior to the process of preparing the work plans, the Bank conducts a review of the local and global competition environment, and takes decisions regarding the initiation of new projects in support of competition and developing innovation. This, alongside the continuing progress made with respect to the Group's strategic plan, within the framework of which, three central layers have been defined: accelerated evolution of traditional banking, revolution in banking by means of pioneering innovation and maximizing the value of the Group. In order to support the realization of the plan, an administrative structure, method and tools have been defined, which accompany the implementation and measurement process, which combine risk management aspects as an integral part of the planning and implementation processes, including the integration of risk based performance measurement at the various management levels (BSC, KPI, start off and compensation plans, and more).

The monitoring and control of the progress at the Group level is made in the implementation of the plan is performed by designated administration acting in this matter by means of current reports, and by a current monitoring and follow-up of Management.

The risk management division accompanies and guides the risk manager and is also a party of accompanying strategic and central projects from inception, in order to verify the integration of risk management considerations as part of the business management, as well as establish independent assessments regarding the effect of the realization of the different plans on the risk profile as well as formation of recommendations regarding the risk appetite.

Reputation risk

The reputation risk comprises the risk of damage to the business of the Bank as a result of damage to its image following various publications, true or false. A negative image may arise as a result of a large number of factors, jointly or severally (wrong business decisions, events in the competitive environment, fraud, embezzlement, violation of privacy, unfairness, damage to profitability or to capital adequacy, a material computer failure, material violation events of compliance and money laundering, harm to the environment, rating, strike, protest, imposition of sanctions, etc.). The reputation risk has a considerable damage potential due to the characteristics of the banking sector and the importance of maintaining the confidence of depositors, borrowers, investors and the local and international banking industry.

Reputation risk is typified by two main risk factors: a risk of the first order (pure reputation risk) stemming from a factor outside the Bank, such as rating agencies, regulatory bodies, the media and/or a reputation event which does not stem from the realization of another risk. And the second order risk, stemming from the realization of other risks, such as: operational risk, compliance and money laundering risks, liquidity risk, credit, business continuity, technologies and information, risks relating to ESG, etc.

Management and control of the reputation risk is complicated, as it is affected by all areas of operation of the Bank and the Group and may stem from many risk centers, direct or indirect. Due to the importance of this risk and its complexity, the reputation risk is being managed by the most senior echelons in the organization, and accordingly, the Bank's President & CEO bears supreme responsibility for the management of the risk in times of crisis. The Head of the Strategy, Finance and Holdings Division is responsible for the current management of the risk.
The responsibility for the current management of the reputation risk applies separately to the Bank's Management and to each Management member with respect to the division under his responsibility. Additional parties who support the management of the risk are: the Bank's spokesperson, the manager of investor relations, manager of the strategy unit, the manager of the marketing and advertising wing, the Public Complaints Commissioner, the Bank's economist, and others.
The Chief Risk Officer is responsible for the methodological guidance regarding the risk management field and for the provision of tools supporting the risk management, including the periodic analysis of changes in the risk profile, as part of the quarterly risk document.
A periodic reputation group forum takes place within the framework of the risk management. The forum discusses various issues, both internal and external, which might affect the reputation risk. Furthermore, different indicators have been defined, supporting the monitoring of changes in exposure in various risk areas that might have an effect upon the reputation risk. This, alongside the continuing activity of the Group in managing the discourse with customers on the social networks and the continuation of the monitoring of the media.

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 according to 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.
During 2022, an increase in the model risks was evident as a result of a variety of changes in the macroeconomic environment, the business environment and the regulatory environment that cast doubt on the predictive ability of some of the models and require careful use of them, their examination and updating as necessary.

Compensation

General. The Bank's compensation policy is subject to the provisions of the Companies Act, of Proper Conduct of Banking Business Directive No. 301A (hereinafter: "Directive 301A") as amended from time to time and to the Compensation Act. The Proper Conduct of Banking Business Directive No. 301A, in the matter of "Compensation policy of a banking corporation", states rules designed to ensure that compensation arrangements in practice at a banking corporation would be consistent with risk management frameworks and with the long-term goals of the banking corporation.

The Compensation of Officers of Financial Corporations (Special approval and the non-deductibility tax wise of exceptional compensation) Act, 5776-2016, (hereinafter: "the Compensation Act") imposes limitations on the amounts of compensation payable to officers and employees of financial corporations.

Qualitative aspects

The Bank's General Meeting of Shareholders has approved in February 2023, the compensation policy for the Bank's officers, which, inter alia, regulates the annual awards to officers for the years 2023 to 2025, and which replaces the compensation policy for the Bank's officers that had been approved by the General Meeting in March 2020 (hereinafter: "Compensation policy for Officers". Furthermore, the Bank's Board of Directors has approved in March 2023, the compensation policy regarding all employees of the Bank, including central employees, as well as principles for the Group compensation policy (hereinafter: "the compensation policy"), the compensation policy for officers being an Appendix thereof.

The compensation policy for Officers determines principals concerning the fixed compensation and the arrangements for employment-termination of officers, and also principals for variable compensation for officers. The compensation policy is compatible with Directive 301A and includes instructions regarding the compatibility of the scope of compensation to officers of the Bank with the provisions of the Compensation Act. For details regarding the compensation policy for officers see the immediate report dated January 23, 2023 (Ref. No. 2023-01-070734). The information in the report is presented here by way of reference.

According to the compensation policy for officers, specific compensation plans for officers exist at the Bank. For details regarding these plans see Note 23 D and E, and Note 35 F and G to the Bank's financial Statements as of December 31, 2022.

A. Information relating to the bodies supervising compensation

The body supervising compensation. The compensation committee of the Board of Directors is the main body supervising compensation. According to the compensation policy, additional bodies in the Bank have rolls regarding overseeing the subject of compensation, including the Human Resources Division, Planning, Atrategy and finance Division, Risk Management Division, Legal Advisory Division and Internal Audit Division.

Composition of the committee. Mr. Aharon Abramovich (external Director) heads the committee, and its members are: Mr. Baruch Lederman (external Director), Ms. Sigal Barmak (external Director), Dr. Doron Avital and Ms. Miri Katz (External director according to Proper Conduct of Banking Business Directive No. 301).

Duties of the committee and its authority. The committee is imparted the duties and authorities as obligated under Sections 118A and 118B of the Companies Act and Proper Conduct of Banking Business Directives of the Supervisor of Banks including Directives No. 301 and No. 301A.

Details with regard to external consultants employed by the Bank. During the course of formulating the compensation policy and the individual compensation plans for officers, the Compensation Committee was assisted by external consultants, as follows: the law firm of Gross & Co. and the firm of Cognum Financial Consulting Ltd. ("Cognum") (formerly, Prof. Itzhak Swary Ltd.). The aforementioned consultants assist the Bank in compensation matters on an ongoing basis, as necessary. Cognum also acts as a control function over the payment of the awards.

Application of the compensation policy. The compensation policy sets forth principles for the compensation of officers of the Bank as well as for the compensation for all Bank employees, while placing emphasis on those employees whose activities are likely to have a material effect on the Bank's risk profile.

As part of the compensation policy, principles are also set forth for a Group compensation policy, which will apply to the major corporations under the control of the Discount Group whose activities are in Israel (Israel Credit Cards Ltd.; Discount Mercantile Bank Ltd; Israel Discount Capital Markets and Investments Ltd.). With regard to controlled corporations that are overseas companies, taking heed of the fact that their activities are conducted overseas and that they are not obligated to draw up a compensation policy pursuant to Directive 301A, the compensation policy provides that separate principles will be prescribed that will apply to the compensation at these controlled corporations, in light of the foreign regulations to which they are subject and the fact that they operate in a labor market that has different characteristics.

Description of classes of employees considered to be senior officers and other key employees[3]

The Company's senior officers, as defined in Directive 301A, include the following employees: the directors; the President & CEO; members of the Bank's Management; the Internal Auditor; the Compliance and Prohibition of Money Laundering Officer.

Other key employees include (1) Managers, who are not senior Officers, reporting directly to the President & CEO, and employees, whose work might have a significant effect upon the risk profile of the Bank and whose compensation might lead to acceptance of excessive risk, on condition that they do not fall under the exceptions stated in Section (b) of the definition of "key employees" in Directive 301A, (2) employees the scope of their compensation in the recent year or in the year preceding it exceeded the amount of NIS 1.5 million. The policy and compensation procedures in the Group, promote attainment of the Bank's goals and integration of an effective risk management culture, and do not encourage the assumption of excess risks or risks exceeding the defined risk appetite.

The quantitative data, herein and hereunder, include the Chairmen of the Boards officiating in the Group, to the extent that they had been defined as active Chairmen, and they do not include Directors.

Number of senior officers and other key employees in the Discount Group in 2021-2022

	Year 2022		Year 2021	
	Senior officers	Other key employees	Senior officers	Other key employees
Total at the Bank(1)	19	9	18	9
Total at the Group(1)	81	12	83	12

Footnote:

(1) Including senior officers and other key employees who held office during a part of the year.

B. Information relating to the planning and structure of the compensation processes

The principal features and goals of the compensation plan. The compensation policy is intended to result in maintaining a proper balance between the overall organizational strategy of the Bank, its organizational culture, its goals and the work plans, as determined from time to time, according to the risk appetite, the risk management and the control environment. This, alongside with constructing a system of suitable incentives to recruit and retain a high standard of human capital, including quality managerial manpower for the long-term, which the Bank requires for its further development and business success. Within the framework of its considerations towards the approval of the compensation policy, the Bank also took into account the provisions of the Compensation Act.

The compensation policy will also enable incentives (by way of addition or reduction of the awards) to be provided for the purpose of attaining general goals of the Bank in the field of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

3 A review of the list of key employees is made in each year.

Compensation of employees engaged in risk management control and audit. The variable compensation of employees engaged in risk management, control and audit is determined according to standards that take into account the importance and sensitivity of the duties that these functions are required to perform, and are not dependent of the business results of the business fields the activity of which they monitor, audit or supervise. The ratio of the fixed compensation to the variable compensation of these functions tends in favor of the fixed compensation, including in relation to officers who do not fulfill supervisory and control functions. The Bank will be entitled to determine that the part of the annual award attributed to Group indices shall be lower for the supervisory and control functions in comparison with that of other officers.

The Risk Management Division is combined for the purpose of scoring the assessment of employees responsible for risk management, control and audit in the various units in the first line of defense, which are under its professional guidance.

Notwithstanding, as a general rule, employees engaged in risk management, control and audit, except for officers, are subject to the compensation arrangements that apply to all the Bank's employees (according to the type of employment of the aforesaid employee).

For details regarding the unique provisions that apply to the variable compensation of officers engaged in risk management, control and audit, see item 4.4 of the compensation policy for officers.

C. Description of the ways in which existing and future risks are taken into account in the compensation process

In the framework of determining the compensation mechanism, the Bank verifies that the determined mechanism matches the Bank's risk appetite and does not encourage excessive risks acceptance, in a manner that creates a balanced incentive structure between the components of the fixed compensation and the components of the variable compensation as well as consistent with the Bank's risk management framework and with its long-term goals. The compensation policy takes into consideration the Bank's principal risks.

Within this framework, it has been prescribed that the compensation plans for the payment of annual awards to officers will include a requirement to attain a threshold condition, which will give weightings to the Bank's long-term policy, including its risk management policy, which included until 2022 (including), inter alia:

- The ratio of return on capital in the year of award shall not be lower than 7%.
- The comprehensive capital adequacy ratio and the Common Equity Tier 1 ratio shall not fall below the minimum ratios determined in directives of the Supervisor of Banks.
- Attaining a threshold score on the qualitative index, which will include the officer's contribution to the implementation of processes in corporate governance fields, attaining the Bank's overall goals in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

The size of the annual awards for officers will be determined based, inter alia, on the following components:

(1) Group indices, which include return on capital and efficiency ratio.

(2) Personal indices, which will include, inter alia, the Bank's attainment in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

(3) A qualitative personal award, which will be distributed at the discretion of the President & CEO from a budget for discretionary awards and this even if the minimum conditions did not materialize in that year. As part of the process of distributing the budget, weight will also be given, inter alia, to the Bank's attainment in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures.

It is noted that the risk management functions at the Bank assisted in the formation of the compensation mechanisms in order to ensure that the indices used as part of the compensation mechanisms are consistent with the Bank's risk management goals, and with the framework of the policy and the risk appetite, thereby ensuring that the compensation mechanisms do not encourage the assumption of excess risks.

Payment of deferred compensation components deferred from prior years will be made on condition that the Bank did not record a loss in its consolidated financial statements for the award year preceding the date of payment of the deferred award.

It has been prescribed that, for the purpose of adjusting the variable compensation for the different kinds of risk to which the Bank is exposed and for the Bank's results, payment of an annual award to employees at the Bank (including other key employees who are not officers) will also generally be contingent, on attaining the threshold conditions for the annual award that apply to officers of the Bank, as detailed above or by fulfilling the minimum requirements for the payment of an annual award, as determined in the collective labor agreements, if at all. Notwithstanding, it has been clarified that attainment of the aforesaid threshold condition will not necessarily obligate the Bank to pay awards to employees, except where the matter is obligatory under the collective labor agreements, the signing thereof was approved by the Board of Directors.
Plans for the granting of additional variable compensation, shall be formed in conjunction with the risk management and control functions. Risk-based indices will be incorporated in the plans, as will indices relating to the Bank's general targets in the fields of risk management, statutory compliance (including internal enforcement in the securities field and/or other fields), regulatory directives and Bank procedures, as indices that drive performance and/or as indices that constrain it.

D. Linkage between performance during the performance measurement period and the level of compensation

With regard to the employees in general, subject to attaining the threshold condition, an awards bundle will be established that will apply to all the employees (except with regard to officers and employees for whom specific compensation plans have been and/or will be prescribed). The business results of the Bank before its share in the results of investee companies (solo) and its contribution to the business results of the Discount Group will also be taken into account in determining the awards bundle. In addition, and in order that the size of the variable component does not limit the Bank's ability to maintain the robustness of its capital at all times, and also in light of the Bank's policy and desire to create value for the Bank's shareholders, the annual award basket for all the Bank's employees (including officers and other key employees) with respect to an award year, subject to attaining the threshold condition, shall not exceed 12.5% - of the net profit attributed to the Bank's shareholders, according to the consolidated financial statements for the year of the award, with the elimination of awards granted to the Bank's employees and the related tax effect.
It should be noted that there are employees, including employees who are not key employees, whose variable compensation differs from the aforementioned variable compensation (such as employees in the Bank's trading rooms).
Effect of performance indices on variable compensation amounts. The relevant targets in each of the group indices according to the officers' compensation policy are based on targets to be set by the Board of Directors according to the work plans. For each index, a target goal is set according to the goal approved for that index, according to which minimum and maximum goals will be calculated for that index. Attainment of the minimum goal, target goal and the maximum goal in a particular award year will confer entitlement to awards at set percentages of the award cap, which is calculated according to the results of the Group indices and the personal indices. Determination of the risk management goals is made in coordination with the risk management division.
Award for special contribution. The compensation policy for officers enables the granting to officers an award in respect of special contribution limited in scope. For additional details see Section 4.6 of the compensation policy to officers.
Discretionary awards budget. According to the compensation policy for officers, the Bank's President & CEO will be given a discretionary awards budget even in the event of the threshold terms not being met. For further details, see Section 4.7 of the compensation policy for officers.
Adjustment of the variable compensation. The Board of Directors is entitled for special reasons to reduce awards for all officers or to a certain officer, following receipt of the Compensation Committee's recommendation.

E. Adjustment of the compensation so as to take account of longer-term performance

The Bank's policy includes deferment and spreading arrangements for variable compensation, aimed at linking the variable compensation with the Bank's long-term performance, including adjusting the compensation in the event of weak performance.

Spreading annual awards. The compensation plan for officers includes a mechanism for spreading the annual awards, as follows:

Half the compensation amount will be paid in cash, proximately after publication of the Bank's financial statements for the award year.

The other half of the aforesaid compensation will be deferred and spread over the three following years, and will be paid in three equal installments.

The payment of a deferred award portion is conditional upon the Bank not recording a loss in its consolidated financial statements for the award year preceding the date of payment of the deferred award portion. Should the Bank not be in compliance with the aforesaid condition in connection with the payment of a certain deferred award portion, the payment of the deferred award portion will be deferred to the following year (hereinafter: "the Deferred Compliance Date") and, should the Bank not be in compliance with the aforesaid term at the Deferred Compliance Date, based on the aforesaid annual results, the entitlement to that deferred award portion will be revoked.

Notwithstanding the aforesaid, with respect to whoever the compensation of whom complies with the provisions of the Compensation Act regarding the maximum amount of compensation, if, in any award year, the total variable compensation to which an officer is entitled with respect to that year does not exceed 40% of the fixed compensation for that officer, the full amount of the awards will be paid in cash, without applying the aforesaid spreading mechanism.

The aforesaid spreading arrangements shall apply also to variable compensation of another key employee who is not an officer. It is noted, that there are key employees, who are not officers, and that in respect of whom specific compensation plans have been set, and that the terms of payment of the deferred award in their respect differ from those discussed above.

Spreading the variable retirement terms. Compensations in respect of the termination of employment of officers, which exceed the amounts prescribed by law or in the employment terms of all the Bank's employees, or a share of an adaptation award that exceeds the equivalent of three monthly salaries (with the addition of related terms) constitute "variable retirement terms". Half of the variable retirement terms will be deferred and spread over three years. If the quarterly or annual financial statements published proximately before the date of payment, show a material deviation from the minimum capital adequacy and Total Common Equity Tier 1 ratios determined by directives of the Supervisor of Banks, then the payment of the deferred retirement terms installment will be deferred by 12 months. In the case that the material deviation from the minimum total capital adequacy and Common Equity Tier 1 ratios, as stated, continues, then the portion of the deferred retirement terms shall be cancelled and shall not be paid.

Compensation clawback arrangements. A mechanism has been determined in the compensation policy for the refund of compensation, whereby, if it is found (after paying the compensation) that the calculation, from which the compensation amount was derived, was based on incorrect financial data, and the error caused the financial statements to be restated - the compensation will be recalculated on the basis of the revised financial data. In addition, the compensation policy includes a mechanism for the reimbursement of the variable compensation paid in exceptional circumstances, including circumstances in which the key employee had taken part in an exceptional damage caused to the Bank and this according to Directive 301A. See also item 12 of the officers' compensation policy.

F. Variable compensation

The proper ratio between the maximum variable compensation and the fixed compensation. For details regarding the annual award caps for officers, see items 4.8 and 7 of the officers' compensation policy. According to Directive 301A, the rate of variable compensation to be paid in a calendar year to an officer, except for a signing award, is not to exceed 100% of the fixed compensation paid to that officer with respect to the same calendar year.

The discretional annual award granted to a key employee who is not an Officer, shall not exceed three monthly salaries of that employee. The total annual award granted to a key employee who is not an Officer, may exceed three monthly salaries, as stated, to the extent that measurable criteria had been determined in advance, according to Directive 301A, and up to a total amount of six monthly salaries of that employee, while granting proper consideration to risk management aspects. It is noted that, there are key employees who are not Officers that in respect of whom specific compensation plans have been set, and that the maximum amount of award in their respect exceeds the said maximum amounts but does not exceed 100% of the fixed compensation paid to them in respect of that calendar year.

Types of variable compensation. In order to enhance the commonality of interests between the Bank's employees and its shareholders, the Bank may initiate programs to grant equity compensation to officers and other employees who are not officers. Generally, the compensation policy for Officers states that the Bank would be entitled to approve or act according to plans for the granting of capital compensation to Officers of the Bank, the value of which is not to exceed an amount of four monthly salaries per year, as detailed in Section 8.3 of the compensation policy for Officers, subject to the maximum amounts of compensation according to Section 7 of the compensation policy for Officers. In 2022, following approval by the Bank's Compensation Committee, the Bank's Board of Directors approved the grant of equity compensation, in the form of options that are exercisable into the Bank's shares, to officers and other managers. For further details, see the Bank's Immediate Report from July 13, 2022 (reference no.: 2022-01-089110) in connection with an outline of a securities offering to employees. The details in the report are presented hereby and below by way of reference.

Quantitative aspects

General. In the following Tables, senior officers and other key employees include senior officers and other key employees in subsidiaries. The amounts of the compensation do not include payroll tax.

Total value of compensation granted during the year

	Year 2022		Year 2021	
	Senior officers	Other key employees	Senior officers	Other key employees
	In NIS millions			
1. Total fixed compensation	**112.3**	**10.4**	**106.9**	**8.1**
Of which:				
Cash based - Not deferred[1]	[2]112.3	10.4	[2]106.2	8.1
Shares or other share-based instruments - Not deferred	-	-	0.7	-
2. Total variable compensation	**51.7**	**5.9**	**45.7**	**4.2**
Of which:				
Cash based - Not deferred[3]	[2]40.5	3.6	[2]35.8	2.5
Cash based - Deferred[4]	9.2	2.0	9.9	1.7
Shares or other share-based instruments - Deferred	2.0	0.3	-	-
Total compensation	**164.0**	**16.3**	**152.6**	**12.3**
Number of employees receiving the compensation				
1. Fixed compensation	**81**	**12**	**83**	**12**
2. Variable compensation	**74**	**11**	**77**	**11**

For notes to the table see after the table "Deferred compensation and retained compensation".

Special payments granted or paid during the year

	Year 2022				Year 2021			
	Senior officers		Other key employees		Senior officers		Other key employees	
	Number of employees	Total compensation In NIS millions	Number of employees	Total compensation In NIS millions	Number of employees	Total compensation In NIS millions	Number of employees	Total compensation In NIS millions
Guaranteed bonuses	2	0.1	-	-	2	0.1	-	-
Signing bonuses	3	0.8	-	-	1	0.2	-	-
Severance payments paid[5][6]	8	9.4	-	-	9	10.6	-	-

For notes to the table see after the table "Deferred compensation and retained compensation".

Deferred compensation and retained compensation

	Total unpaid amount of outstanding deferred compensation[(6)(7)]	Of which: Total unpaid amount of outstanding deferred compensation and retained compensation exposed to ex-post adjustments, explicit and/or implicit	Total amount of amendments made during the year due to ex-post implicit adjustments	Total amount of deferred compensation paid-out during the year[(6)]
	In NIS millions			
	Year 2022			
Senior officers				
Cash	23.9	23.9	0.1	4.1
Share-based instruments	2.0	2.0	-	-
Other key employees				
Cash	5.0	5.0	0.1	1.0
Share-based instruments	0.3	0.3	-	-
Total compensation	**31.2**	**31.2**	**0.2**	**5.1**
	Year 2021			
Senior officers				
Cash	18.7	18.7	(0.2)	4.9
Other key employees				
Cash	4.0	4.0	-	0.7
Total compensation	**22.7**	**22.7**	**(0.2)**	**5.6**

Footnotes:

(1) Salary including related expenses and employer provisions, including provision for an adaptation award/non-compete award for the first three months following the retirement of the employee.

(2) Including compensation granted to employees for a period preceding the date of their appointment as senior officers.

(3) Including the component of the awards granted for the reporting year which is not deferred and variable retirement terms which are not subject to attaining predefined criteria.

(4) Including deferred installments of awards for the reporting year, a provision for which was made in full, and variable retirement terms which include provision for an adaptation award/non-compete award for the period over the first three months following the retirement of the employee, which are contingent on attaining predefined criteria.

(5) Including actual payments for severance pay, adaptation award and payment replacing prior notice (the provision for the said payments was generally made on an accrual basis).

(6) Including compensation for senior officers and other key employees who had retired from office in prior years.

(7) Including deferred installments of awards paid not proximate to the date they were awarded and are contingent on attaining predefined criteria and the balance of variable retirement terms not yet paid which include provision for an adaptation award/non-compete award for the period over the first three months following the retirement of the employee, which are contingent on attaining predefined criteria.

Compensation to senior officers

For details regarding compensation to senior officers, according to 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".

March 12, 2023	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Orit Caspi Executive Vice President Chief Risk Officer

Addendums

Addendum A – Linkages between the financial statements and regulatory amounts

Differences between the accounting consolidation basis and the regulatory consolidation basis and the mapping of the financial statements according to regulatory risk categories (LI1)

		Balance sheet balances of items which:				
	Balance sheet balances according to the scope of regulatory consolidation	Subject to the credit risk framework	Subject to the Securitization framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from the capital base
	in NIS millions					
	December 31, 2022					
Assets						
Cash and deposits with banks	65,713	65,713	–	–	–	–
Securities	44,794	41,113	1,447	973	2,234	–
Securities borrowed or purchased under resale agreements	857	–	–	857	–	–
Credit to the public	244,288	239,947	–	4,341	–	–
Allowance for credit losses	(3,209)	(3,196)	–	(13)	–	2,839
Credit to the public, net	241,079	236,751	–	4,328	–	–
Credit to Governments	2,599	2,599	–	–	–	–
Investments in associates	486	333	–	–	–	(153)
Buildings and equipment	3,904	3,904	–	–	–	–
Intangible assets and goodwill	162	–	–	–	–	(162)
Assets for derivative instruments	11,420	–	–	11,420	–	–
Other assets	5,740	5,740	–	–	–	–
Total assets	**376,754**	**356,153**	**1,447**	**17,578**	**2,234**	**2,524**
Liabilities						
Deposits from the public	292,293	–	–	–	–	292,293
Deposits from banks	15,376	–	–	–	–	15,376
Deposits from the Government	117	–	–	–	–	117
Securities loaned or sold under repurchase agreements	3,739	–	–	–	–	3,739
Bonds and Subordinated debt notes	12,308	–	–	–	–	12,308
Liabilities for derivative instruments	9,348	–	–	9,348	–	–
Other liabilities	18,095	–	–	–	–	18,095
Total liabilities	**351,276**	**-**	**-**	**9,348**	**-**	**341,928**

Differences between the accounting consolidation basis and the regulatory consolidation basis and the mapping of the financial statements according to regulatory risk categories (LI1) (continued)

		Balance sheet balances of items which:				
	Balance sheet balances according to the scope of regulatory consolidation	Subject to the credit risk framework	Subject to the Securitization framework	Subject to the counterparty credit risk framework	Subject to the market risk framework	Not subject to capital requirements or subject to deductions from the capital base
	in NIS millions					
	December 31, 2021					
Assets						
Cash and deposits with banks	59,638	59,638	-	-	-	-
Securities	43,869	41,749	1,158	1,344	962	-
Securities borrowed or purchased under resale agreements	1,207	-	-	1,207	-	-
Credit to the public	216,196	211,864	-	4,332	-	-
Allowance for credit losses	(3,040)	(3,018)	-	(22)	-	2,452
Credit to the public, net	213,156	208,846	-	4,310	-	-
Credit to Governments	2,664	2,664	-	-	-	-
Investments in associates	462	430	-	-	-	(32)
Buildings and equipment	3,401	3,401	-	-	-	-
Intangible assets and goodwill	163	-	-	-	-	(163)
Assets for derivative instruments	5,522	-	-	5,522	-	-
Other assets	5,006	5,006	-	-	-	-
Total assets	**335,088**	**321,734**	**1,158**	**12,383**	**962**	**2,257**
Liabilities						
Deposits from the public	260,907	-	-	-	-	260,907
Deposits from banks	12,534	-	-	-	-	12,534
Deposits from the Government	346	-	-	-	-	346
Securities loaned or sold under repurchase agreements	-	-	-	-	-	-
Bonds and Subordinated debt notes	15,071	-	-	-	-	15,071
Liabilities for derivative instruments	6,323	-	-	6,323	-	-
Other liabilities	17,759	-	-	-	-	17,759
Total liabilities	**312,940**	**-**	**-**	**6,323**	**-**	**306,617**

Major sources for differences between sums of regulatory exposure and balances in the financial statements (ll2)

		Items to which the following apply:			
	Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
			in NIS millions		
			December 31, 2022		
Amount of balance sheet balance of assets, according to the scope of regulatory consolidation (according to the LI1 disclosure format)	377,412	356,153	1,447	17,578	2,234
Amount of balance sheet balance of assets, according to the scope of regulatory consolidation (according to the LI1 disclosure format)	-	-	-	-	-
Net total amount according to the scope of regulatory consolidation	377,412	356,153	1,447	17,578	2,234
Off-balance sheet amounts	-	35,607	-	-	-
Differences due to different netting rules, other than those already included in row 2	(9,060)	-	-	(9,060)	-
Differences due to consideration of provisions	2,839	2,839	-	-	-
Adjustments for SFT	756	-	-	756	-
Addition of future potential exposure for derivatives	6,322	-	-	6,322	-
Other adjustments	1,952	1,563	-	389	-
Exposure amounts considered for regulatory purposes[1]	**380,221**	**396,162**	**1,447**	**15,985**	**2,234**
			December 31, 2021		
Amount of balance sheet balance of assets, according to the scope of regulatory consolidation (according to the LI1 disclosure format)	336,237	321,734	1,158	12,383	962
Amount of balance sheet balance of assets, according to the scope of regulatory consolidation (according to the LI1 disclosure format)	-	-	-	-	-
Net total amount according to the scope of regulatory consolidation	336,237	321,734	1,158	12,383	962
Off-balance sheet amounts	-	30,797	-	313	-
Differences due to different netting rules, other than those already included in row 2	(4,539)	-	-	(4,539)	-
Differences due to consideration of provisions	2,452	2,452	-	-	-
Adjustments for SFT	244	-	-	244	-
Addition of future potential exposure for derivatives	4,354	-	-	4,354	-
Other adjustments	1,396	1,396	-	-	-
Exposure amounts considered for regulatory purposes[1]	**340,144**	**356,379**	**1,158**	**12,755**	**962**

Note:
Including amounts not included in Table CR4.

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital(1)
	December 31, 2022	December 31, 2021	
	In NIS million		
Assets			
Cash and deposits with banks	65,713	59,638	
Securities*	44,794	43,869	
*** Of which: Investments in the equity of financial corporations, which do not exceed 10% of the share capital of the financial corporation**	32	25	14
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	116	-	21
* Of which: Other securities	44,646	43,844	
securities borrowed or purchased under resale agreements	857	1,207	
Credit to the public	244,288	216,196	
allowance for credit losses*	(3,209)	(3,040)	
* Of which: group allowance for credit losses included in tier 2	(2,415)	(2,154)	20
* Of which: Allowance for credit losses not included in the regulatory capital	(794)	(886)	
Credit to the public, net	241,079	213,156	
Credit to Government	2,599	2,664	
Investments in Associates*	486	462	
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	37	35	21
* Of which: Investment in other associates	449	427	
Buildings and equipment	3,904	3,401	
Intangible assets and goodwill*	162	163	
* Of which: goodwill	162	163	6
* Of which: other Intangible assets	-	-	7
Assets for derivative instruments	11,420	5,522	
Other assets *	5,740	5,006	
* Of which: Deferred tax assets**	2,162	1,650	21 + 75
** Of which: Deferred tax assets excluding those attributed to timing differences	-	-	9
** Of which: Deferred tax liabilities for intangible assets	-	-	8
** Of which: Other deferred tax assets	2,162	1,650	
* Of which: Excess of deposits over provision	-	-	12
* Of which: Additional other assets	3,578	3,356	
Total assets	**376,754**	**335,088**	
Liabilities and Equity			
Deposits from the public	292,293	260,907	
Deposits from banks	15,376	12,534	
Deposits from the Government	117	346	
Securities loaned or sold under repurchase agreements	3,739	-	
Bonds and subordinated capital notes*	12,308	15,071	
* Of which: Deferred debt notes not recognized as regulatory capital	8,366	10,462	
* Of which: Deferred debt notes recognized as regulatory capital**	3,942	4,609	16b,18b
** Of which: Qualified as regulatory capital components	3,942	4,280	16a,18a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	329	16b,18b
Liabilities for derivative instruments*	9,348	6,323	

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (continued)

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital(1)
	December 31, 2022	December 31, 2021	
	In NIS million		
* Of which: In respect of self credit risk	5	8	11
Other liabilities*	18,095	17,759	
* Of which: group allowance for credit losses included in tier 2	424	298	20
* Of which: Deferred tax liability attributed to pension	-	-	13
* Of which: Adjustment for put option for Non-controlling interests holders in a subsidiary which is subject to transitional provisions	-	-	
Liabilities held for sale	-	-	
Total liabilities	**351,276**	**312,940**	
Equity attributed to the banking corporation's shareholders*	24,880	21,483	
* Of which: Ordinary share capital**	19,266	17,260	
** Of which: Ordinary share capital	683	676	1
** Of which: Retained earnings	20,388	17,649	3
** Of which: Accumulated other comprehensive income***	(1,805)	(1,065)	4
*** Of which: Net losses on the hedging of cash flows from items not presented in the balance sheet at fair value	-	-	10
*** Of which: Net loss on financial statements translation adjustments	(227)	(711)	
* Of which: Capital reserves	5,565	4,174	2
* Of which: Preference share capital**	-	-	
** Of which: Qualified as regulatory capital components	-	-	15a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	15b
* Of which: Other capital instruments**	-	-	
** Of which: Qualified as regulatory capital components	-	-	
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	
Non-controlling interests*	598	665	
* Of which: Non-controlling interests that can be attributed to common equity tier 1	385	319	5
* Of which: Non-controlling interests that can be attributed to additional tier 1 capital	-	-	17
* Of which: Non-controlling interests attributed to tier 2 capital	97	88	19
* Of which: Non-controlling interests not attributable to the regulatory capital	116	258	
Total equity capital	**25,478**	**22,148**	

Mapping of the components used for the purpose of presentation of the regulatory capital composition

		December 31, 2022		December 31, 2021		
		In NIS million				
Common equity tier 1: instruments and retained earnings			Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	References from stage 2 (2)
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common equity tier 1	6,248	-	4,850	-	1+2
2	Retained earnings, including dividends proposed or declared subsequent to balance sheet date	20,388	-	17,649	-	3
3	Disclosed accumulated other comprehensive income and retained earnings	(1,805)	-	(1,065)	-	4
4	Common equity tier 1 instruments issued by the corporation qualified for inclusion in the regulatory capital in the transitional period	-	-	-	-	
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation and held by third parties (minority interests)	385	-	319	-	5
6	Common Equity tier 1: before regulatory adjustments and deductions	25,216	-	21,753	-	
Common Equity tier 1 capital: regulatory adjustments and deductions						
7	Adjustments/provisions, stabilization reserves for value assessments	-	-	-	-	-
8	Goodwill, less deferred taxes liability	175	-	195	-	6
9	Other intangible assets, excluding mortgage service rights, less deferred taxes liability	-	-	-	-	7+8
10	Deferred tax assets the realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	-	-	9
11	Amount of accumulated other comprehensive income on the hedge of cash flows from items not presented in the balance sheet at fair value	-	-	-	-	10
12	Negative differences between provisions and anticipated losses	-	-	-	-	
13	Increase in equity capital due to securitization transactions	-	-	-	-	

For Notes see p. 124.

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2022		December 31, 2021		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	References from stage 2 [2]
14	Unrealized income and losses due to changes in fair value of liabilities deriving from changes in self credit risk of the banking corporation. Furthermore, in relation to liabilities for derivative instruments, all accounting debt valuation adjustments (DVA) deriving from the self credit risk of the bank should be deducted	5	-	8	-	11
15	Surplus deposits over provision, net of deferred tax liability to be settled if the asset is impaired or is eliminated according to the reporting to the public directives	-	-	-	-	12+13
16	Investment in own ordinary shares, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	
17	Mutual cross-investments in ordinary shares of financial corporations	-	-	-	-	
18	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	14
19	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
20	Mortgage service rights the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	
21	Deferred tax assets created by timing differences, the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	
22	Amount of mortgage service rights, deferred tax assets arising from timing differences and investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations exceeding 15% of the Common equity tier 1 of the banking corporation	-	-	-	-	
23	Of which: for investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations	-	-	-	-	
24	Of which: for mortgage service rights	-	-	-	-	

For Notes see p. 124.

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2022		December 31, 2021		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	References from stage 2 [(2)]
25	Of which: deferred tax assets created by timing differences	-	-	-	-	
26	Regulatory adjustments and additional deductions determined by the Supervisor of Banks	(337)	-	(289)	-	
26A	Of which: for investments in the equity of financial corporations	-	-	-	-	
26B	Of which: for mortgage service rights	-	-	-	-	
26C	Of which: additional regulatory adjustments to Common equity tier 1	-	-	-	-	
	Of which: adjustments in respect to the efficiency plan	(202)		(289)		
	Of which: adjustments in respect of expected credit losses	(135)				
	Regulatory adjustments to Common equity tier 1 subject to the treatment required prior to the adoption of Directive 202 according to Basel III	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
27	Deductions applying to Common equity tier 1 since the amounts of additional tier 1 capital and of tier 2 capital are insufficient to cover the deductions	-	-	-	-	
28	Total regulatory adjustments and deductions from Common equity tier 1	(157)	-	(86)	-	
29	Common equity tier 1	25,373	-	21,839	-	
Additional tier 1 capital: instruments:						
30	Additional tier 1 share capital instruments issued by the banking corporation and premium on these instruments	-	-	-	-	
31	Of which: classified as equity capital according to the reporting to the public directives	-	-	-	-	15a+16a
32	Of which: classified as a liability according to the reporting to the public directives	-	-	-	-	
33	Additional tier 1 capital instruments issued by the banking corporation qualified for inclusion in the regulatory capital for the transitional period	-	-	178	178	15b+16b

For Notes see p. 124.

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2022		December 31, 2021		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	References from stage 2 [2]
34	Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors	-	-	-	-	17
35	Of which: Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from additional tier 1 capital	-	-	-	-	
36	Additional tier 1 capital before deductions	-	-	178	178	
	Additional tier 1 capital: deductions					
37	Investment in own capital instruments included in additional tier 1 capital, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	
38	Mutual cross-investments in capital instruments included in additional tier 1 capital	-	-	-	-	
39	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
40	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
41	Additional deductions determined by the Supervisor of Banks	-	-	-	-	
41A	Of which: for investments in the capital of financial corporations	-	-	-	-	
41B	Of which: additional deductions from tier 1 capital not included in the framework of Section 41(A)	-	-	-	-	
	Deductions from additional tier 1 capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	-	-	-	-	

For Notes see next page.

Mapping of the components used for the purpose of presentation of the regulatory capital composition (continued)

		December 31, 2022		December 31, 2021		
		In NIS million				
	Common equity tier 1: instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 according to Basel III	References from stage 2 (2)
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
42	Deductions applying to additional tier 1 capital because the amount of tier 2 capital is insufficient to cover the deductions	-	-	-	-	
43	Total deductions from additional tier 1 capital	-	-	-	-	
44	Additional tier 1 capital	-	-	178	178	
45	Tier 1 capital	25,373	-	22,017	178	
Tier 2 capital: Instruments and Provisions						
46	Instruments issued by the banking corporation (not included in tier 1 capital) and premium on such instruments	3,942	-	4,280	-	18a
47	Tier 2 capital instruments issued by the banking corporation, which are qualified for inclusion in the regulatory capital during the transitional period	-	-	151	151	18b
48	Tier 2 capital instruments issued by subsidiary companies of the banking corporation to third party investors	-	-	-	-	19
49	Of which: Tier 2 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from tier 2 capital	-	-	-	-	
50	Group allowances for credit losses before the related tax effect	2,839	-	2,452	-	20
	minority interest in a subsidiary	97	-	88	-	
51	Tier 2 capital before deductions	6,878	-	6,971	151	

Notes:

(1) The references are to the Table "Mapping of the components used for the presentation of the composition of the regulatory capital", presented as follows under the column "references from stage 2".

(2) In view of the relief granted by the Supervisor of Banks with respect to the efficiency plans, the balance of deferred tax assets does not include the deferred taxes in respect of the efficiency plans.

Addendum B – Securitization

IDB Bank and the Bank (hereunder in this item: "the Group") invest in several types of securitized securities, including mortgage-backed securities issued by agencies in the United States and loan-backed securities (CLOs). The Group is an investor in securitized securities and not the issuer of any securitized securities. Exposure of the Group relates to the wholesale portfolio and is of a traditional securitization nature.
For the purpose of averaging the risk of securitization exposure, the Group makes use of ratings published by the international rating agencies Moody's, Fitch and S&P.
For further details, see Note 12 to the financial statements and "Investment in asset backed securities" under "Developments of assets and liabilities" above.
The securitization exposure included in the following table does not include mortgage backed securities issued by GNMA, FNMA and FHLMC. This, due to the fact that all layers of the said securities reflect identical credit risk.

Securitization exposure in the banking book (SEC1)

	Total exposure	
	December 31	
	2022	2021
	in NIS millions	
Asset-backed securities (ABS):		
Collateralized bonds CLO	1,447	1,158
Total asset-backed securities	**1,447**	**1,158**
Total mortgage and asset-backed securities	**1,447**	**1,158**

	December 31			
	2022		2021	
	Exposure	Capital requirements	Exposure	Capital requirements
		0.115		0.115
	in NIS millions			
Risk weights:				
20%	1,447	33	1,158	27
Total	**1,447**	**33**	**1,158**	**27**

Glossary

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

Glossary (continued)

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