Q2 // 2022

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

Link to an accessible report

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

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

The meeting of the Board of Directors held on August 11, 2022, within the framework of approval of the Bank's Report for the Second Quarter of 2022, decided to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2021 Annual Report and the Report for the Second Quarter of 2022, including in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which was published in the framework of the 2021 Annual Report.

Principal regulatory ratios and review of risk management and risk assets

Principal regulatory ratios (KM1)

	30.06.2022	31.03.2022	31.12.2021	30.09.2021	30.06.2021
	in NIS millions				
Available capital					
Common equity tier 1	23,939	23,473	21,839	21,719	21,099
Common equity tier 1 before applying the effect of the transition	23,557	23,067	21,590	21,443	20,752
Tier 1 capital	23,939	23,473	22,017	21,897	21,277
Tier 1 capital before applying the effect of the transition	23,557	23,067	21,590	21,443	20,752
Total capital	30,214	29,605	28,988	28,271	27,673
Total capital before applying the effect of the transition	29,836	29,203	28,413	27,643	26,879
Weighted average of risk assets					
Total weighted average of risk assets	**235,535**	**222,519**	**215,321**	**211,148**	**205,255**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.16	10.55	10.14	10.29	10.28
Ratio of common equity tier 1 before applying the effect of the transition	9.99	10.35	10.01	10.12	10.09
Tier I capital ratio	10.16	10.55	10.23	10.37	10.37
Tier I capital ratio before applying the effect of the transition	9.99	10.35	10.01	10.12	10.09
Ratio of total capital	12.83	13.30	13.46	13.39	13.48
Ratio of total capital before applying the effect of the transition	12.65	13.10	13.17	13.07	13.07
Ratio of common equity tier 1 required by the Supervisor of Banks	9.18	9.17	8.16	8.16	8.16
Ratio of common equity tier 1 over the required by the Supervisor of Banks	0.98	1.38	1.98	2.13	2.12
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**397,698**	**374,412**	**368,120**	**346,679**	**340,170**
Leverage ratio (in %)	6.0	6.3	6.0	6.3	6.3
Leverage ratio before applying the effect of the transition	5.8	6.2	5.9	6.2	6.1
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**72,896**	**72,945**	**67,627**	**66,886**	**66,700**
Total cash outflows	**60,104**	**58,435**	**54,958**	**51,421**	**48,031**
Liquidity coverage ratio (in %)	121.3	124.8	123.1	130.1	138.9
Net stable funding ratio according to Directives of the Supervisor of Banks					
Total Available Stable Funding (AFS)	**242,323**	**232,304**	**226,437**		
Total required stable funding (RSF)	**194,357**	**182,433**	**178,661**		
Net stable funding ratio (NFSR) in percentages	124.7	127.3	126.7		

Footnote:

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

General background and general reporting principles

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

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

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

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

Main developments in the first half of 2022

Increase in capital

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

Issue of debt instruments

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

The Corona crisis

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

The banking corporation's approach to risk management

For details see in the Risks Report, which was published as part of the 2021 Annual Report (pp. 7-17).
For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2021 Annual Report (pp. 66-68, 113-117) and updates in the Second Quarter of 2022 Report.

Material leading and developing risks

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

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

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.06.2022	31.03.2022	30.06.2022
	in NIS millions		
Credit risk – standardised approach	203,289	192,276	25,411
Counterparty credit risk (standardised approach)	5,000	4,293	625
Credit valuation adjustment (CVA)	1,526	1,489	191
Securitization exposure (standardised approach)	272	236	34
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,268	5,088	659
Total credit risk	215,355	203,382	26,920
Market risk (standardised approach)	4,690	3,677	586
Operational risk	15,490	15,460	1,936
Total	**235,535**	**222,519**	**29,442**

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

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

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

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

Capital and leverage

Composition of the capital

Capital components for calculating ratio of capital

	June 30		December 31
	2022	2021	2021
	in NIS millions		
A. Common Equity Tier 1			
Common equity	24,093	21,346	22,148
Difference between common equity and common equity tier 1	(248)	(383)	(395)
Total common equity tier 1 before supervisory adjustments and deductions	**23,845**	**20,963**	**21,753**
Supervisory adjustments and deductions			
Goodwill and other intangible assets	260	207	195
Supervisory adjustments and other deductions	28	4	8
Total supervisory adjustments and deductions before effect of adjustments in respect of the efficiency plan and before effect of adjustment in respect of expected credit losses	**288**	**211**	**203**
Total adjustments in respect to the efficiency plan	248	347	289
Total adjustments in respect of expected credit losses	134	-	-
Total common equity tier 1 after supervisory adjustments and deductions	**23,939**	**21,099**	**21,839**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	-	178	178
Total additional tier 1 capital after deductions	**-**	**178**	**178**
C. Tier 2 capital			
Instruments before deductions	3,487	3,981	4,431
Allowance for credit losses before deductions	2,692	2,332	2,452
Minority interests in a subsidiary	96	83	88
Total tier 2 capital before deductions	6,275	6,396	6,971
Deductions	-	-	-
Total tier 2 capital	**6,275**	**6,396**	**6,971**

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

Capital adequacy

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

Leverage ratio

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

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

	June 30		December 31
	2022	2021	2021
	NIS millions		
Total assets according to the consolidated financial statements	364,421	310,734	335,088
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments in respect of derivative financial instruments	(2,329)	(467)	(190)
Adjustments in respect of SFTs	-	-	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	33,529	27,858	31,110
Other adjustments	2,077	2,045	2,112
Exposure for the purpose of the leverage ratio	**397,698**	**340,170**	**368,120**

Disclosure of the leverage ratio (LR2)

	June 30		December 31
	2022	2021	2021
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	349,591	304,821	326,583
Asset amounts deducted in determining Tier 1 capital	(280)	(207)	(195)
Total balance sheet exposures (excluding derivatives and SFTs)	**349,311**	**304,614**	**326,388**
Derivative exposures			
Replacement cost associated with all derivatives transactions	5,817	2,005	2,836
Add-on amounts for PFE associated with all derivatives transactions	2,875	2,211	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	**8,692**	**4,216**	**5,343**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	6,166	3,482	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	**6,166**	**3,482**	**5,280**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	132,221	112,473	125,560
Adjustments for conversion to credit equivalent amounts	(98,692)	(84,615)	(94,450)
Total off-balance sheet items	**33,529**	**27,858**	**31,110**
Capital and total exposures			
Tier 1 capital	23,939(1)	21,277(1)	22,017(1)
Total exposures	397,698	340,170	368,120
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.0	6.3	6.0

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

Credit Risk

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

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

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	June 30, 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	1,632	1,573	22	37	1,632	1,321	22	8	4	2	33
Mining & Quarrying	283	282	-	1	273	203	-	-	(7)	(2)	3
Industry	17,133	16,393	496	244	16,743	9,600	496	191	4	14	279
Construction and Real Estate - Construction	45,333[6]	43,676	682	975	45,295[6]	21,817	682	429	(3)	4	367
Construction and Real Estate - Real Estate Activity	15,541	14,999	377	165	15,470	13,371	376	234	6	1	261
Electricity and Water	6,348	6,319	16	13	5,682	3,925	16	-	37	(1)	111
Commerce	24,180	23,265	412	503	23,929	19,132	412	149	(25)	8	333
Hotels, Hotel Services and Food	2,220	1,990	144	86	2,220	1,905	144	14	(16)	(2)	47
Transportation and Storage	6,958	6,529	325	104	6,769	5,347	325	153	7	2	154
Communication and Computer Services	3,009	2,653	74	282	2,928	1,858	74	42	17	-	55
Financial Services	26,436	26,269	66	101	19,159	14,255	66	-	2	1	120
Other Business Services	8,616	8,017	169	430	8,579	5,999	169	42	(4)	21	180
Public and Community Services	11,520	11,032	331	157	11,493	9,984	331	5	31	(2)	132
Total Commercial	**169,209**	**162,997**	**3,114**	**3,098**	**160,172**	**108,717**	**3,113**	**1,267**	**53**	**46**	**2,075**
Private Individuals - Housing Loans	70,301	66,600	314	3,387	70,301	60,395	314	239	33	7	242
Private Individuals - Other	70,786	68,679	450	1,657	70,782	31,621	450	165	79	50	798
Total Public	**310,296**	**298,276**	**3,878**	**8,142**	**301,255**	**200,733**	**3,877**	**1,671**	**165**	**103**	**3,115**
Banks in Israel	3,107	3,107	-	-	1,628	1,597	-	-	-	-	2
Israeli Government	26,585	26,585	-	-	966	966	-	-	-	-	-
Total Lending Activity in Israel	**339,988**	**327,968**	**3,878**	**8,142**	**303,849**	**203,296**	**3,877**	**1,671**	**165**	**103**	**3,117**

For footnotes see next page.

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

	June 30, 2022										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									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	235	112	–	123	235	146	–	–	–	–	1
Mining & Quarrying	378	378	–	–	–	–	–	–	–	–	–
Industry	5,833	5,333	191	309	5,627	3,665	191	–	–	24	37
Construction and Real Estate - Construction	210	189	–	21	210	73	–	–	1	–	2
Construction and Real Estate - Real Estate Activity	13,892	12,109	692	1,091	13,700	11,656	690	75	(39)	(29)	99
Electricity and Water	869	869	–	–	522	366	–	–	–	–	7
Commerce	10,654	9,787	546	321	10,625	7,601	546	–	(9)	–	66
Hotels, Hotel Services and Food	1,920	1,043	697	180	1,894	1,788	695	189	(27)	–	14
Transportation and Storage	1,071	1,014	–	57	891	875	–	–	(6)	–	15
Communication and Computer Services	340	337	3	–	268	208	3	3	–	–	3
Financial Services	11,374	11,332	24	18	2,417	1,692	24	–	(5)	–	19
Of which: Federal agencies in the U.S.[7]	7,394	7,394	–	–	–	–	–	–	–	–	–
Other Business Services	988	907	58	23	876	605	58	–	(1)	–	10
Public and Community Services[8]	5,096	4,308	411	377	4,615	4,276	408	–	(8)	–	42
Total Commercial	**52,860**	**47,718**	**2,622**	**2,520**	**41,880**	**32,951**	**2,615**	**267**	**(94)**	**(5)**	**315**
Private Individuals - Housing Loans	402	396	5	1	402	394	4	4	1	–	12
Private Individuals - Other	2,171	2,042	9	120	2,169	1,432	9	–	–	–	5
Total Public	**55,433**	**50,156**	**2,636**	**2,641**	**44,451**	**34,777**	**2,628**	**271**	**(93)**	**(5)**	**332**
Banks Outside of Israel	6,161	6,161	–	–	3,722	3,626	–	–	–	–	6
Governments Outside of Israel	8,907	8,907	–	–	2,544	1,664	–	–	(1)	–	22
Total Activity Outside of Israel	**70,501**	**65,224**	**2,636**	**2,641**	**50,717**	**40,067**	**2,628**	**271**	**(94)**	**(5)**	**360**
Total	**410,489**	**393,192**	**6,514**	**10,783**	**354,566**	**243,363**	**6,505**	**1,942**	**71**	**98**	**3,477**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 243,363 million, NIS 42,080 million, NIS 1,330 million, NIS 11,023 million, NIS 112,693 million, respectively.

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

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

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

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

(6) Including acquisition groups in an amount of NIS 457 million.

(7) Including mortgage backed securities in the amount of NIS 7,168 million, issued by GNMA and in the amount of NIS 226 million, issued by FNMA and FHLMC.

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

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 8,216 million.

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

(11) The balance of commercial debts includes housing loans in the amount of NIS 282 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

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

	June 30, 2021										
	Total Credit Risk(1)				Debts(2) and off-balance sheet Credit Risk (excluding Derivatives)(3)						
									Credit Losses(4)		
	Total(9)	Credit Performance Rating(10)	Problematic(5)	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts(2)(11)	Problematic(5)	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions										
Lending Activity in Israel											
Agriculture	1,484	1,430	16	38	1,475	1,158	16	11	2	2	19
Mining & Quarrying	407	373	34	-	396	220	34	34	(2)	-	4
Industry	15,254	14,246	623	385	15,110	8,926	623	272	(29)	23	289
Construction and Real Estate - Construction	37,501(6)	36,370	486	645	37,467(6)	18,698	486	151	(27)	19	297
Construction and Real Estate - Real Estate Activity	13,028	12,528	296	204	12,983	11,503	292	116	(40)	(2)	186
Electricity and Water	5,195	5,150	33	12	4,581	3,008	33	1	-	2	24
Commerce	22,610	21,337	582	691	22,377	17,951	580	180	(138)	(62)	487
Hotels, Hotel Services and Food	2,157	1,698	398	61	2,157	1,851	388	108	(31)	(1)	73
Transportation and Storage	6,498	5,946	417	135	6,264	5,095	417	184	(14)	7	155
Communication and Computer Services	2,444	2,175	51	218	2,400	1,741	51	44	(45)	(23)	86
Financial Services	18,946	18,704	58	184	16,308	10,372	58	1	(30)	(9)	75
Other Business Services	7,784	7,070	279	435	7,748	5,359	279	103	(29)	5	199
Public and Community Services	10,721	10,516	63	142	10,707	9,084	63	25	(17)	(1)	38
Total Commercial	**144,029**	**137,543**	**3,336**	**3,150**	**139,973**	**94,966**	**3,320**	**1,230**	**(400)**	**(40)**	**1,932**
Private Individuals - Housing Loans	55,054	52,783	279	1,992	55,054	46,935	279	1	(1)	3	251
Private Individuals - Other	66,820	64,703	530	1,587	66,816	30,991	530	251	(127)	5	841
Total Public	**265,903**	**255,029**	**4,145**	**6,729**	**261,843**	**172,892**	**4,129**	**1,482**	**(528)**	**(32)**	**3,024**
Banks in Israel	2,224	2,224	-	-	1,204	1,081	-	-	-	-	-
Israeli Government	34,154	34,154	-	-	2,178	1,389	-	-	-	-	-
Total Activity in Israel	**302,280**	**291,406**	**4,145**	**6,729**	**265,225**	**175,362**	**4,129**	**1,482**	**(528)**	**(32)**	**3,024**

For footnotes see next page.

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

	June 30, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense 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	250	48	-	202	250	183	-	-	-	-	2
Mining & Quarrying	332	332	-	-	5	5	-	-	-	-	-
Industry	5,752	5,235	163	354	5,319	3,099	126	22	(18)	-	45
Construction and Real Estate - Construction	137	137	-	-	136	104	-	-	(1)	-	1
Construction and Real Estate - Real Estate Activity	11,724	9,249	1,741	734	11,401	10,486	1,665	205	(6)	13	232
Electricity and Water	470	469	-	1	169	14	-	-	-	-	-
Commerce	8,286	7,721	185	380	8,160	5,220	185	-	(1)	(4)	53
Hotels, Hotel Services and Food	1,854	406	1,381	67	1,827	1,784	1,381	332	(12)	-	92
Transportation and Storage	922	916	-	6	740	730	-	-	(1)	-	7
Communication and Computer Services	313	308	3	2	246	206	3	3	-	-	1
Financial Services	11,012	10,913	38	61	2,565	1,518	38	14	(1)	-	12
Of which: Federal agencies in the U.S. [7]	7,141	7,141	-	-	-	-	-	-	-	-	-
Other Business Services	993	820	27	146	858	577	27	-	-	-	4
Public and Community Services[8]	4,830	4,198	345	287	4,202	3,911	333	-	9	-	40
Total Commercial	**46,875**	**40,752**	**3,883**	**2,240**	**35,878**	**27,837**	**3,758**	**576**	**(31)**	**9**	**489**
Private Individuals - Housing Loans	220	206	5	9	220	210	5	-	-	-	3
Private Individuals - Other	1,859	1,809	45	5	1,858	1,319	45	-	-	-	11
Total Public	**48,954**	**42,767**	**3,933**	**2,254**	**37,956**	**29,366**	**3,808**	**576**	**(31)**	**9**	**503**
Banks Outside of Israel	3,728	3,728	-	-	2,413	2,350	-	-	-	-	-
Governments Outside of Israel	5,160	5,160	-	-	1,828	1,828	-	-	2	-	17
Total Activity Outside of Israel	**57,842**	**51,655**	**3,933**	**2,254**	**42,197**	**33,544**	**3,808**	**576**	**(29)**	**9**	**520**
Total	**360,122**	**343,061**	**8,078**	**8,983**	**307,422**	**208,906**	**7,937**	**2,058**	**(557)**	**(23)**	**3,544**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 208,906 million, NIS 45,326 million, NIS 1,377 million, NIS 4,671 million, NIS 99,842 million, respectively.

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

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

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

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

(6) Including acquisition groups in an amount of NIS 214 million.

(7) Including mortgage backed securities in the amount of NIS 6,725 million, issued by GNMA and in the amount of NIS 410 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 7,300 million.

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

(11) The balance of commercial debts includes housing loans in the amount of NIS 257 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

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

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

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

For footnotes see next page.

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

	December 31, 2021										
	Total Credit Risk[1]				Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
									Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of allowance for credit loss
	in NIS millions										
Lending Activity Outside of Israel											
Agriculture	175	49	-	126	175	162	-	-	(1)	-	2
Mining & Quarrying	332	332	-	-	-	-	-	-	-	-	-
Industry	5,437	5,190	72	175	4,984	3,055	72	60	(45)	-	55
Construction and Real Estate - Construction	142	142	-	-	142	123	-	-	(29)	(29)	1
Construction and Real Estate - Real Estate Activity	11,811	10,065	790	956	11,552	10,324	751	70	(52)	(2)	158
Electricity and Water	892	892	-	-	540	351	-	-	1	-	1
Commerce	9,403	8,843	435	125	9,280	6,549	435	-	40	27	66
Hotels, Hotel Services and Food	1,752	518	981	253	1,738	1,671	981	290	(49)	-	50
Transportation and Storage	976	976	-	-	814	793	-	-	(2)	-	6
Communication and Computer Services	354	351	3	-	218	154	3	3	9	9	1
Financial Services	10,706	10,600	41	65	2,302	1,607	41	13	(4)	-	8
Of which: Federal agencies in the U.S.[7]	7,031	7,031	-	-	-	-	-	-	-	-	-
Other Business Services	901	825	74	2	821	538	74	-	-	-	5
Public and Community Services[8]	4,772	4,163	408	201	4,225	3,889	406	-	5	-	35
Total Commercial	**47,653**	**42,946**	**2,804**	**1,903**	**36,791**	**29,216**	**2,763**	**436**	**(127)**	**5**	**388**
Private Individuals - Housing Loans	299	292	5	2	299	294	5	-	-	-	3
Private Individuals - Other	2,059	2,018	38	3	2,058	1,333	38	-	(3)	-	8
Total Public	**50,011**	**45,256**	**2,847**	**1,908**	**39,148**	**30,843**	**2,806**	**436**	**(130)**	**5**	**399**
Banks Outside of Israel	4,442	4,442	-	-	2,495	2,412	-	-	-	-	-
Governments Outside of Israel	6,420	6,420	-	-	1,533	1,533	-	-	7	-	22
Total Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**43,176**	**34,788**	**2,806**	**436**	**(123)**	**5**	**421**
Total	**378,721**	**363,210**	**6,859**	**8,652**	**328,137**	**222,572**	**6,817**	**1,853**	**(693)**	**56**	**3,311**

Footnotes:

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

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

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

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

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

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

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

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

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

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

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

Credit Exposure to Foreign Financial Institutions

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

Drafts and Instructions published during the first half of 2022

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

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

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

A draft Amendment to the Directive was published on June 13, 2022, the aim of which, inter alia, is to provide answers to questions raised as to the manner of integrating entitlement loans included in the approval in principle granted to the customer, as well as to the contents of the online calculator.

Sale of housing loans and cooperation regarding extension of housing loans. The Supervisor of Banks published a draft circular on May 18, 2022, updating Proper Conduct of Banking Business Directive No. 329B in the matter of sale of housing loans and cooperation in regarding extension of housing loans. This draft had already been published in 2017, but had not become a binding Directive. Based on conclusions drawn from the global financial crisis, the Directive regulates principles for transacting such operations intended, inter alia, to protect the rights of borrowers included in the sold loan portfolios, to prevent situations of negative selection affecting the quality of the credit portfolio of the bank and to avoid development of moral risk to the acquiring entity. The Directive states limitations, such as: the volume of sale transactions for housing loans – the amount of housing loans to be sold, together with the amount of housing loans under responsibility of the institutional body in a syndication transaction, to which the bank provides a material service, shall not exceed 10% of the balance of the housing loan portfolio. Notwithstanding the above, a possibility exists for deviation from the said maximum amount subject to an examination, and a decision of the board of directors of the bank and to approval by the Supervisor of Banks.

Credit risk applying to the construction and real estate sector. On March 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).

The credit quality of credit exposures (CR1)

Credit quality of credit exposure

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

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
	in NIS millions			
	June 30, 2021			
Debts, excluding bonds	3,867	202,789	3,277	203,379
Bonds	42	42,705	-	42,747
Off-balance sheet exposure	43	108,297	255	108,085
Total	**3,952**	**353,791**	**3,532**	**354,211**
	December 31, 2021			
Debts, excluding bonds	3,149	215,166	3,040	215,275
Bonds	1	40,135	-	40,136
Off-balance sheet exposure	55	121,035	249	120,841
Total	**3,205**	**376,336**	**3,289**	**376,252**

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

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

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

Credit risk mitigation techniques – Review (CR3)

Methods for credit risk mitigation - Quantitative disclosure

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	June 30, 2022								
Debts, excluding bonds	192,516	42,732	15,787	35,849	8,904	6,883	6,883	-	-
Bonds	39,370	-	-	-	-	-	-	-	-
Total	**231,886**	**42,732**	**15,787**	**35,849**	**8,904**	**6,883**	**6,883**	**-**	**-**
Of which: non-accruing debts or in arrears for 90 days or over	1,462	1,246	685	179	30	1,067	655		
	June 30, 2021								
Debts, excluding bonds	167,474	35,905	16,578	27,447	8,120	8,458	8,458	-	-
Bonds	42,747	-	-	-	-	-	-	-	-
Total	**210,221**	**35,905**	**16,578**	**27,447**	**8,120**	**8,458**	**8,458**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over[1]	1,102	1,920	1,024	223	64	1,697	960		
	December 31, 2021								
Debts, excluding bonds	175,202	40,073	16,129	33,279	9,335	6,794	6,794	-	-
Bonds	40,136	-	-	-	-	-	-	-	-
Total	**215,338**	**40,073**	**16,129**	**33,279**	**9,335**	**6,794**	**6,794**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over[1]	1,218	1,478	794	143	48	1,335	746		

Note:
(1) Not including an accumulating impaired debt in the amount of NIS 444 million at June 30,2021 and NIS 404 million at December 31,2021.

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

Exposures according to classes of assets and risk weights

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
					in NIS millions				
					June 30, 2022				
Sovereigns, their central banks and national monetary authority	94,323	14	–	–	–	–	193	40	94,570
Public sector entities (PSE) which are not central governments	1,720	8,106	–	1,480	–	–	89	–	11,395
Banks (including multilateral development banks)	–	9,372	–	58	–	–	36	–	9,466
Securities corporations	–	478	–	–	–	–	–	–	478
Corporations	–	12,480	–	917	–	–	110,218	238	123,853
Retail exposures for private individuals	–	–	–	–	–	33,046	292	–	33,338
Loans to small businesses	–	–	–	–	–	14,286	34	–	14,320
Secured by residential property	–	–	15,519	19,888	17,130	8,257	1,095	–	61,889
Secured by commercial real estate	–	–	–	–	–	–	4,306	–	4,306
Loans in arrears	–	–	–	–	–	–	618	1,501	2,119
Other assets	2,038	38	–	–	–	–	6,787	1,522	10,385
Of which: in respect of shares	–	–	–	–	–	–	747	1,103	1,850
Total	**98,081**	**30,488**	**15,519**	**22,343**	**17,130**	**55,589**	**123,668**	**3,301**	**366,119**
					June 30, 2021				
Sovereigns, their central banks and national monetary authority	83,529	10	–	–	–	–	181	14	83,734
Public sector entities (PSE) which are not central governments	1,736	7,886	–	1,451	–	–	18	–	11,091
Banks (including multilateral development banks)	–	10,282	–	71	–	–	40	–	10,393
Corporations	–	7,054	–	829	–	–	98,475	244	106,602
Retail exposures for private individuals	–	–	–	–	–	29,473	126	–	29,599
Loans to small businesses	–	–	–	–	–	13,027	5	–	13,032
Secured by residential property	–	–	13,400	15,155	10,138	8,474	728	–	47,895
Secured by commercial real estate	–	–	–	–	–	–	4,309	–	4,309
Loans in arrears	–	–	–	–	–	–	529	1,343	1,872
Other assets	2,411	17	–	–	–	–	5,738	1,314	9,480
Of which: in respect of shares	–	–	–	–	–	–	590	942	1,532
Total	**87,676**	**25,249**	**13,400**	**17,506**	**10,138**	**50,974**	**110,149**	**2,915**	**318,007**
					December 31, 2021				
Sovereigns, their central banks and national monetary authority	92,639	63	–	–	–	–	167	–	92,869
Public sector entities (PSE) which are not central governments	1,447	8,362	–	1,383	–	–	79	–	11,271
Banks (including multilateral development banks)	–	7,842	–	113	–	–	31	–	7,986
Securities corporations	–	209	–	–	–	–	–	–	209
Corporations	–	11,655	–	860	–	–	99,371	299	112,185
Retail exposures for private individuals	–	–	–	–	–	31,335	137	–	31,472
Loans to small businesses	–	–	–	–	–	13,832	25	–	13,857
Secured by residential property	–	–	14,455	17,631	13,396	8,398	887	–	54,767
Secured by commercial real estate	–	–	–	–	–	–	4,317	–	4,317
Loans in arrears	–	–	–	–	–	–	798	1,104	1,902
Other assets	2,225	34	–	–	–	–	6,313	1,333	9,905
Of which: in respect of shares	–	–	–	–	–	–	632	990	1,622
Total	**96,311**	**28,165**	**14,455**	**19,987**	**13,396**	**53,565**	**112,125**	**2,736**	**340,740**

Footnote:

(1) Improvement of the data.

Counterparty credit risk

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

Instructions published during the first half of 2022

Directive regarding the standardized approach for measuring counterparty credit risk exposures. In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardized approach for measuring counterparty credit risk exposures SA-CCR". On December 1, 2021, the Supervisor of Banks published the Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk in accordance with the SA-CCR. The applicable date as from July 1, 2022. The said approach replaces the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the CEM approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part as a derivative of accepted netting agreements (such as CSA).
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).
The Bank estimates that the implementation of the new directive will reduce the Common Equity Tier 1 ratio by a rate of 0.04%-0.08% in terms of June 30, 2022.

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

	Replacement cost	Potential future exposure	EAD after CRM	RWA
		in NIS millions		
		June 30, 2022		
Current exposure method	5,684	2,344	5,478	2,397
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	3,975	2,392
Total	**5,684**	**2,344**	**9,453**	**4,789**
		June 30, 2021		
Current exposure method	1,947	1,767	3,423	2,110
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,079	701
Total	**1,947**	**1,767**	**5,502**	**2,811**
		December 31, 2021		
Current exposure method	2,770	2,074	4,187	2,185
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	3,570	2,362
Total	**2,770**	**2,074**	**7,757**	**4,547**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	June 30, 2022	
Total portfolios for which CVA is calculated according to the standardised approach	**5,340**	**1,526**
	June 30, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	**3,359**	**1,598**
	December 31, 2021	
Total portfolios for which CVA is calculated according to the standardised approach	**4,161**	**1,656**

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

Market Risk

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

Quantitative disclosure

(1) Limitations set by the Board of Directors

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

(2) Interest Risk Exposure

General

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

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

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

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

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

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

Assets	Affect of 100BP as of June 30, 2022	Affect of 100BP as of December 31, 2021	Liabilities	Affect of 100BP as of June 30, 2022	Affect of 100BP as of December 31, 2021
			in NIS millions		
Credit	2,909	2,778	Credit	1,006	971
Available-for-sale securities portfolio	808	1,341	Available-for-sale securities portfolio	459	502
Trading securities portfolio	16	56	Trading securities portfolio	(84)	137
Held-to-maturity securities portfolio	662	479	Held-to-maturity securities portfolio	1,895	2,090
Off balance-sheet	50	-	Off balance-sheet	267	320
Other	28	32	Other	-	-
Total	4,473	4,686	Total	3,628	4,019

(3) Additional information – models and risk indices

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

Principal indices for management

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

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

	For the quarter ending:			
	June 30, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of year 2021	Maximum exposure during 2021
	in NIS millions			
Actual exposure	(845)	(845)	(667)	(742)
Limitation set by the Board of Directors	(1,643)		(1,520)	
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

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

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

	For the year ended on:			
	June 30, 2022		December 31, 2021	
	End of reported quarter	Maximum exposure during the quarter	End of reported year 2021	Maximum exposure during 2021
	in NIS millions			
Actual exposure	(413)	(609)	(624)	(624)
Limitation set by the Board of Directors	(1,643)		(1,520)	

Indices and additional models

The Value at Risk (VaR)

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

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

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

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

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

	Second quarter		End of year	
	2022		2021	
	End of reported quarter	Maximum exposure during the quarter	End of year	Maximum exposure during the year
	in NIS millions			
Actual exposure	20.5	26.7	10.7	16.3
Limitation set by the Board of Directors	30		30	

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

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

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

(4) Inflation and exchange rate exposure

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

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

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

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

The exposure is measured separately for each material currency.

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

		Second Quarter 2022				2021		
					Position range			
Segment	Limitation	Year end	From	To	Average	Year end	From	To
CPI linked*	50%-(50%)	27.2%	18.4%	27.2%	22.2%	10.9%	1.7%	16.9%
Foreign currency	15% - 30%	16.5%	16.5%	17.2%	16.8%	18.0%	17.1%	19.1%

Footnote:

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

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

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

(5) Management of positions in the trading portfolio

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2022	December 31, 2021
	in NIS millions	
Not for trading derivatives	65,164	52,708
Of which: hedging derivatives	5,751	4,876
Trading derivatives	364,497	294,872
Total	**429,661**	**347,580**

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

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

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

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

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

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

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

Market risk according to the standardized approach (MR1)

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

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

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

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

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

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

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

Interest rate risk in the banking book (IRRBB)

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

Shares Risk

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

Liquidity risk

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

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	June 30, 2022		December 31, 2021	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		72,896		67,627
Cash outflows				
Retail deposits from individuals and small businesses, of which:	150,907	10,890	142,470	10,132
Stable deposits	53,248	2,628	50,859	2,508
Less stable deposits	73,292	7,531	66,926	6,883
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	24,367	731	24,685	741
Unsecured wholesale financing, of which:	107,858	64,292	97,818	57,499
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	1	1
Deposits not for operational purposes (all counterparties)	106,431	64,226	96,421	57,441
Unsecured debts	1,427	66	1,395	58
Secured wholesale financing		137		77
Additional liquidity requirements, of which:	86,667	21,822	83,120	19,186
Cash outflows in respect of exposure to derivatives and other collateral requirements	14,986	14,576	12,438	11,524
Cash outflows in respect of loss of financing of debt products				
Credit and liquidity facilities	71,681	7,246	70,682	7,662
Other contractual financing commitments	35,294	956	30,889	822
Other conditional financing commitments	2,853	96	2,659	91
Total cash outflows		**98,193**		**87,808**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	1,329	1,329	1,422	1,422
Cash inflows from regularly performing exposure	28,926	21,773	23,567	19,489
Other cash inflows	16,755	14,987	13,696	11,939
Total cash inflows	**47,010**	**38,089**	**38,685**	**32,850**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**72,896**		**67,627**
Total net cash outflows		**60,104**		**54,958**
Liquidity Coverage Ratio		121.3%		123.1%

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

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

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

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

The liquidity coverage ratio of the Discount Group

As of June 30, 2022, the ratio amounted to 123.7%, compared to 127.5% on December 31, 2021. The average liquidity ratio in the second quarter of 2022 amounted to 121.3% as compared with an average ratio of 123.1% in the fourth quarter of 2021.

The average liquidity ratio has declined due to the fast growth in the credit portfolio, despite the growth in retail and wholesale deposits.

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

Details of the composition of the liquidity buffer

		For the period ended	
	Assets included	June 30, 2022	December 31, 2021
		in NIS millions	
Buffer 1	Cash	48,013	39,970
	Israel Bonds/Short-term loans (MAKAM)	12,025	15,998
	Foreign bonds	11,731	9,911
Buffer 2	Sovereigns bonds	203	341
	Mortgage bonds issued by public corporations	177	381
	Corporation Bonds AA	515	772
Buffer 2 b	Corporation Bonds A	234	253
Total		**72,896**	**67,627**

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

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

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

	For the period ended	
	June 30, 2022	December 31, 2021
	In %	
Discount Group	121.28%	123.05%
The Bank	133.77%	131.88%
IDB New York	113.10%	110.57%
Mercantile Discount Bank	126.07%	128.56%
Discount Group	**121.3%**	**123.1%**

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

The liquidity coverage ratio in the principal currencies

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

The liquidity coverage ratio as of June 30, 2022, respecting the total of foreign currencies, amounted to 150.1% compared to 138.7% on December 31, 2021. The rise in the ratio stemmed from growth in foreign currency deposits from the public and from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.

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

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

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

Net Stable Funding Ratio (LIQ2)

	30.06.2022				
	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:	26,500	-	-	-	26,500
Regulatory capital	23,933				23,933
Other capital instruments	2,567				2,567
Retail deposits by individuals and small businesses:	-	146,607	7,566	2,916	144,782
Stable deposits		59,472	2,706	1,413	60,483
Less stable deposits		87,135	4,860	1,503	84,299
Wholesale funding:	-	123,571	10,932	11,415	57,327
Deposits held for operational requirements		-	-	-	-
Other wholesale funding		123,571	10,932	11,415	57,327
Liabilities with interdependent matching assets					
Other liabilities:		15,123	1,267	13,081	13,714
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio		1,468			
All other liabilities and capital not included in the above categories		15,123	1,267	13,081	13,714
Total Available Stable Funding (AFS)					**242,323**
Total high quality liquid assets according to net stable funding ratio (HQLA)					**14,582**
Deposits held with other financial institutions for operational requirements					
Performing loans and securities:	--	121,441	26,560	150,583	167,999
Performing loans to financial institutions, secured by high quality liquid assets of level 1					
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions		16,988	676	5,339	7,887
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:		102,433	23,807	94,804	114,846
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		57,525	477	3,692	5,009
Performing housing loans secured by a mortgage, of which:		2,095	2,032	48,435	43,573
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203		600	590	14,111	9,767
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities		(75)	45	2,005	1,693
Assets with interdependent matching liabilities					
Other assets:	95	3,363	265	4,550	6,227
Commodities physically traded, including gold	95				95
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)					
Assets in respect of derivative instruments for the purpose of net stable funding ratio		-	-	41	41
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral		-	-	173	173
All other classes of assets not included in the above categories		3,363	265	4,550	5,918
Off-balance sheet items		105,638	2,223	3,905	5,588
Total required stable funding (RSF)					**194,396**
Net stable funding ratio (NFSR) in percentages					**124.65**

Footnote:

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

Net Stable Funding Ratio (LIQ2) (continued)

	31.12.2021				
	Non weighted value according to periods of repayment				Weighted value
	With no repayment date	Up to six months	From six months up to one year	One year or over	
	In NIS millions				
Available stable funding items (AFS)					
Capital:	25,220	-	-	-	25,220
Regulatory capital	21,887	-	-	-	21,887
Other capital instruments	3,333	-	-	-	3,333
Retail deposits by individuals and small businesses:	-	139,881	7,430	2,345	137,996
Stable deposits	-	58,380	3,039	961	59,309
Less stable deposits	-	81,501	4,391	1,384	78,687
Wholesale funding:	-	109,269	7,128	9,642	49,516
Deposits held for operational requirements	-	-	-	-	-
Other wholesale funding	-	109,269	7,128	9,642	49,516
Liabilities with interdependent matching assets	-	-	-	-	-
Other liabilities:	-	15,186	2,324	12,543	13,705
Liabilities regarding derivative instruments for the purpose of a net stable funding ratio	-	1,281			-
All other liabilities and capital not included in the above categories	-	15,186	2,324	12,543	13,705
Total Available Stable Funding (AFS)	**-**	**-**	**-**	**-**	**226,437**
Total high quality liquid assets according to net stable funding ratio (HQLA)	**-**	**-**	**-**	**-**	**13,019**
Deposits held with other financial institutions for operational requirements	-	-	-	-	-
Performing loans and securities:	-	112,419	24,977	137,388	153,471
Performing loans to financial institutions, secured by high quality liquid assets of level 1	-	-	-	-	-
Performing loans to financial institutions, secured by high quality liquid assets not of level 1 and unsecured performing loans to financial institutions	-	14,762	600	5,897	8,105
Performing loans to nonfinancial wholesale customers, loans to retail customers and small businesses, loans to sovereigns, to central banks and to public sector entities, of which:	-	95,695	22,489	86,425	104,951
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	55,185	353	3,500	4,901
Performing housing loans secured by a mortgage, of which:	-	1,906	1,864	43,150	38,733
With a risk weight of 35% or less, according to Proper Conduct of Banking Business Directive No. 203	-	578	569	13,348	9,250
Securities not in default but not qualified to be considered as high quality liquid assets, including marketable securities	-	56	24	1,916	1,682
Assets with interdependent matching liabilities	-	-	-	-	-
Other assets:	88	3,102	483	5,179	6,967
Commodities physically traded, including gold	88	-	-	-	88
Assets deposited as first collateral for derivative contracts and assets provided for the benefit of a default fund regarding central counterparties (CCPs)	-	-	-	-	-
Assets in respect of derivative instruments for the purpose of net stable funding ratio	-	-	-	4	4
Liabilities in respect of derivative instruments for the purpose of net stable funding ratio, before deduction of deposited variable collateral	-	-	-	161	161
All other classes of assets not included in the above categories	-	3,102	483	5,179	6,714
Off-balance sheet items	-	104,082	-	-	5,204
Total required stable funding (RSF)					**178,661**
Net stable funding ratio (NFSR) in percentages					**126.70**

Financing risk - available and unrestricted assets

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

Available and unrestricted assets

	June 30, 2022	December 31, 2021
	In NIS millions	
Total assets as of	116,357	111,551
Liquidity requirement	11,190	10,399
Of which pledged	20,124	20,607
Of which provided as collateral	1,345	1,181
Total available assets	**83,698**	**79,364**

Additional risks

Drafts and Instructions published during the first half of 2022

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

Operational risk

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

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

Other risks

Information technology risk management

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

Data and cyber protection risks

Threats in the cyberspace

In the second quarter of 2022, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.
A number of outstanding trends were noted during April-June 2022:
- The Iranian Government acted through subcontractors, with the aim of impairing the Israeli economy. This by way of ransom ware attacks having a double target: financial component – the payment of ransom to the attacking agent, and a national component – embarrassment of the victim on the social networks and on the different media channels (thus embarrassing the State of Israel);
- Complexity of the manner of inserting the ransom ware – the utilization of unidentified deficiencies existing in complex technological systems, for which the manufacturers have not yet issued data protection updates, with the aim of inserting a ransom ware virus into the systems of a large number of organizations at the same time. This trend may affect the Group, both by damaging one or more material suppliers and by damaging one of the systems in use by the Group;
- Following the fall in the value of the ruble resulting from the Russia-Ukraine war, an increase is noticed in attempts at fraud and social engineering at the global and national level, by non-local Russian-speaking attackers.

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

Environmental risks

Environmental and climate risks

Recently the topic of environmental and climate risk has received a high degree of focus from the regulatory authorities, who understand that the materialization of environmental and climate risks could affect the banking system and, in extreme circumstances, could even have global and systemic effects. Accordingly, various regulators around the world, including the Banking Supervision Department, are preparing to map the activities relating to this topic in the banking systems towards future regulation in this field.
In 2009, following a regulatory expectation letter concerning this topic sent to the banking system, the Bank's activities in this field were put in order, including as part of the credit policy and as part of the specific credit approval processes.
The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and in accordance with the level of materiality.

On December 1, 2020, a letter regarding environmental risk management was sent to banking corporations and credit card companies by the Supervisor of Banks. The Banking Supervision Department views with great importance the promotion of the environmental risk issue, and sees in the banking corporations important partners in the transition to sustainable environmental economy, inter alia, by way of formation of appetite for environmental risk, credit policy, investments, allocating capital to "green" financing and investments, etc.
Within the framework of a Bank of Israel circular dated December 2, 2021 regarding the public disclosure of environmental, social and governance (ESG) aspects, it is necessary – inter alia – to examine the need to expand the disclosure concerning the risks in this field to which the Bank is exposed, including due to developments associated with climate change and transition risks, and in order to reflect material changes in the way that such risks are managed and to include, inter alia, quantitative indices for measuring the exposure to these risks.
The Bank is studying the subject in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

Legal risks

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

Compliance risks

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. The letter of indemnity and the letter of immunity are extended from time to time.
Validity of the letters of indemnification and immunity were extended at the beginning of July, 2022 until March 31, 2023. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For further details regarding compliance risks including Discount Group's activities with banks acting in the Palestinian Authority, see the 2021 Annual Report (pp. 112-113).
Draft update of Proper Conduct of Banking Business Directive No.411 regarding the management of prohibition of money laundering and the finance of terror risks in the field of virtual currencies. Within the framework of the draft published on December 29, 2021, it is proposed to anchor the requirements from the banking system in prohibition of money laundering and the finance of terror risks involved in providing payment services involving activity in virtual currencies. It is noted that at this time, when regulation and supervision over virtual currency service providers is still in its infancy, the Supervisor sees payment services provided by banking corporations in virtual currency activity as high risk activities in terms of prohibition of money laundering and the finance of terror, and therefore increased monitoring and control measures should be applied. Among other things, it was determined that the banking corporation must perform a risk assessment regarding remittances the origin of or their purpose is related to virtual currencies, and on the basis of the risk assessment establish policies and procedures (which will relate, at the very least, to the manner of activity with virtual currency service providers; the manner of activity with customers who have carried out activity in a virtual currency not through a service provider, etc.). This requirement complies with the international standard set by the FATF for this matter. It was further determined that a corporation will not refuse to provide payment services in connection with activity in virtual currencies merely because it is associated with virtual currencies, insofar as the service provider in virtual currencies which is a party to the transaction has received a license to provide the service in Israel. A provision has also been issued prohibiting the provision of payment services in connection with activity in virtual currency in certain cases and provisions regarding the requirement of references for tax payments by law. According to the draft, the amendment to the Directive in these respects is expected to enter into force in November 2022.

Conduct risk

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

Exposure to cross-border risks

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

Strategic risk

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

Reputation risk

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

Model risk

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

Remuneration to senior officers

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

Addendums

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

August 11, 2022	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Orit Caspi Executive Vice President Chief Risk Officer

Glossary

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

Glossary (continued)

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