Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at September 30, 2021

Q3

bank hapoalim

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This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew version will prevail.

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Report on Risks

We are honored to present the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2021.

The information in this Report, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations.

This Report on Risks is published within the financial reporting of Bank Hapoalim B.M., and contains information regarding the management of risks and capital. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020; the Financial Statements as at December 31, 2020; and the Condensed Financial Statements.

Sincerely yours,

Ruben Krupik	**Dov Kotler**	**Amir Bachar**
Chairman of the	President and	Senior Deputy Managing Director,
Board of Directors	Chief Executive Officer	Chief Risk Officer

Tel Aviv, November 14, 2021

A. Introduction

A.1. Forward-looking information

Most of the information in this report that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macroeconomic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Construction and Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

A.2. Disclosure declaration

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the periodic financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks. As part of the discussions of the financial statements of the Bank, the Board of Directors of the Bank approved the publication of the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2021.

B. Principal supervisory ratios, risk-management review, and weighted risk-adjusted assets

B.1. Principal supervisory ratios

Table B-1: Principal supervisory ratios

	On a consolidated basis, as at				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
	NIS millions				
Available capital					
Common equity Tier 1 capital	**42,803**	42,445	41,012	40,070	39,202
Common equity Tier 1 capital before effect of transitional directives(1)	**42,536**	42,123	40,634	39,636	38,712
Tier 1 capital	**43,047**	42,689	41,256	40,558	39,690
Tier 1 capital before effect of transitional directives(1)	**42,536**	42,123	40,634	39,636	38,712
Total capital	**52,438**	51,885	51,472	50,779	50,122
Total capital before effect of transitional directives(1)	**51,674**	51,070	49,331	48,288	47,264
Risk-weighted assets					
Total risk-weighted assets (RWA)	**382,978**	365,659	351,373	347,762	339,961
Total risk-weighted assets (RWA) before effect of transitional directives(1)	**383,329**	366,085	351,876	348,341	340,616
Capital-adequacy ratios according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	**11.18%**	11.61%	11.67%	11.52%	11.53%
Common equity Tier 1 capital ratio before effect of transitional directives(1)	**11.10%**	11.51%	11.55%	11.38%	11.37%
Tier 1 capital ratio	**11.24%**	11.67%	11.74%	11.66%	11.67%
Tier 1 capital ratio before effect of transitional directives(1)	**11.10%**	11.51%	11.55%	11.38%	11.37%
Total capital ratio	**13.69%**	14.19%	14.65%	14.60%	14.74%
Total capital ratio before effect of transitional directives(1)	**13.48%**	13.95%	14.02%	13.86%	13.88%
Common equity Tier 1 capital ratio required by the Banking Supervision Department(2)	**9.20%**	9.21%	9.23%	9.24%	9.26%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department(2)	**1.98%**	2.40%	2.44%	2.28%	2.27%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures	**680,634**	656,533	620,054	597,837	573,323
Total exposures before effect of transitional directives(1)	**680,774**	656,704	620,255	598,069	573,585
Leverage ratio	**6.32%**	6.50%	6.65%	6.78%	6.92%
Leverage ratio before effect of transitional directives(1)	**6.25%**	6.41%	6.55%	6.63%	6.75%

(1) Before the effect of the transitional directives, including the effect of the adoption of US GAAP on employee benefits, and before the effect of adjustments for the efficiency plans.
(2) Including a capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.

Table B-1: Principal supervisory ratios (continued)

	Average for the three months ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	**205,872**	200,377	185,151	167,204	153,840
Total net cash outflows	**162,010**	143,639	132,963	119,688	116,473
Liquidity coverage ratio (in %)	**127%**	140%	139%	140%	132%

B.2. Risk assessment and management

The Bank performs a comprehensive examination to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while hedging some risks. The Banking Supervision Department has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Banking Supervision Department for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Banking Supervision Department.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Area is Dr. A. Bachar.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Ms. D. Raviv.

The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.

Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.

Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.

Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

B.3. Severity of risk factors

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped. The risk factors and the estimates of the Board of Management regarding the severity of risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high). For details, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

Table B-2: Severity of risk factors

	Risk factor	Risk effect
Financial risks		
1.	Credit risk (including counterparty risk)*	Medium
1.1.	Of which: risk in respect of the quality of borrowers and/or collateral*	Medium
1.2.	Of which: risk in respect of sector concentration	Medium
1.3.	Of which: risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Of which: interest-rate risk	Low-Medium
2.2.	Of which: inflation risk/exchange-rate risk	Low
2.3.	Of which: share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk	Medium
4.1.	Of which: cyber risk	Medium
4.2.	Of which: IT risk	Medium
5.	Legal risk**	Low-Medium
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy***	Medium
10.	Economic risk – condition of the global economy***	Medium
11.	Compliance risk	Medium
12.	Model risk****	Medium

* Due to the improvement in the economic environment, the level of credit risk was lowered to Medium in the second quarter of 2021.

** The level of legal risk was raised to Low-Medium in the first quarter of 2021.

*** Due to the improvement in the economic environment and the vaccination of parts of the population, risk levels of the condition of the economy in Israel and the condition of the global economy were lowered from High to Medium-High in the first quarter of 2021, and to Medium in the second quarter.

**** Model risk has been added to the table as of the first quarter of 2021. For details, see the section "Model risk," below.

B.4. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

Risk management at the Bank Group is described extensively later in this report.

The Board of Management and Board of Directors of the Bank have discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments.

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. The Bank evaluates and examines its strategic plan in view of changes in the macroeconomic environment.

  The crisis of the spread of the coronavirus has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. In the first nine months of 2021, the economic environment in Israel improved, due to vaccination of broad swaths of the population and removal of a considerable part of the restrictions imposed by the government. However, uncertainty still exists regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. In this context, it is noted that due to an increase in demand in the economy, combined with business decisions of the Bank, alongside certain adjustments and reliefs, credit activity at the Bank grew significantly over the last two quarters. This growth has an impact on profitability and on credit spreads. The aforesaid increase has also led to an increase in risk-adjusted assets, and a corresponding decrease in the capital ratio; a decrease in the liquidity ratio; and a decrease in the leverage ratio, without deviation from regulatory requirements in these areas, as described in the report. For details, see the section "Economic and financial review" in the Report of the Board of Directors and Board of Management, and the section "Effect of the crisis of the spread of the coronavirus," below.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats and attempted attacks. The Bank is taking action to mitigate this risk.

- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and overseas. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, including online bank account switching and open banking, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate the effects of these changes on the Bank. Further, these effects may not be immediate or sharp; instead, there may be slower, prolonged effects derived from processes of gradual change in the Bank's environment (customers, market players, etc.), as well as from the incremental preparations of the Bank for the necessary adaptations of its operations.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others), fintech companies, and digital banks, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, bank account switching, and open banking, as well as competition in the business sector, may affect the business results of the Bank, including its credit spreads. The Bank has formulated a strategic plan for 2021-2023, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.
- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption.
- **Environmental risk:** Around the world, the understanding has grown in recent years that the materialization of environmental risks and climate risks may cause harm to the economy, and, in extreme cases, may cause significant damage to banks and to the financial system, as a result of the materialization of financial and non-financial risks in the long term. These effects may also be expressed within other risks to which the banking corporation is exposed in the course of its activity, such as credit risk (through the effect on the financial resilience of borrowers and the value of collateral), market risk, operational risk, legal risk, reputational risk, and more. These risks, particularly climate risks and the impact of processes of transition to a low greenhouse-gas emissions economy, have unique characteristics of uncertainty. At this stage, it is too early to estimate the potential long-term effects of these changes on the Bank.

For details regarding legal proceedings, see Note 10 to the Condensed Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements.

B.5. Effect of the crisis of the spread of the coronavirus and subsequent developments

Coronavirus case numbers began to rise in Israel in July and August 2021, due to the spread of the Delta variant. The government decided on a third dose of vaccination for the population, which, in fact, led to a sharp drop in new cases in September-October. Despite the increase in case numbers, no restrictions impeding manufacturing or private consumption were imposed.

Economic activity continued to expand at an accelerated pace in the third quarter of 2021, at least according to the economic indicators released up to this point. Private consumption grew rapidly, particularly in services, such as leisure and vacations, the consumption of which was restricted last year. The high-tech sector also expanded, with technology companies raising capital on a large scale. In the real-estate market, sales of new homes reached high levels, with accelerated increases in prices.

In view of the rapid improvement in activity, the government reduced the extent of aid to households and businesses, including unemployment benefits for workers on unpaid leave. Concurrently, the Bank of Israel began to reduce its purchases of government bonds, and in October it announced that it would not extend its purchasing plan.

The broad unemployment rate continued to fall, although moderately. The broad unemployment rate stood at 7.9% in September, compared with 9.9% in June. The number of available jobs in the economy is high, at approximately 137 thousand positions. The mismatch between unemployed people and available jobs is characteristic of many countries around the world at this time, and may have effects on the potential for growth and on inflationary pressures.

COVID-19 has caused damage to manufacturing chains worldwide, extending beyond the initial estimates of this impact. A leap in shipping and commodity prices, accompanied by shortages of industrial products, particularly electronic components, is disrupting manufacturing processes and fueling inflation globally. Energy prices around the world also soared during the third quarter. Thus far, the damage to the Israeli economy has been mitigated by its reliance on local energy sources and a relatively low proportion of energy-intensive industries.

Due to the increase in demand in the economy, combined with business decisions of the Bank, alongside certain adjustments and reliefs, credit activity at the Bank grew significantly over the last two quarters. This growth has an impact on profitability and on credit spreads. The aforesaid increase has also led to an increase in risk-adjusted assets, and a corresponding decrease in the capital ratio; a decrease in the liquidity ratio; and a decrease in the leverage ratio, without deviation from regulatory requirements in these areas, as described in the report.

As part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank. In the baseline scenario, the Bank assumes that even in the event of further spread of the coronavirus, it would not lead to material restrictions on economic activity. In accordance with this assumption, economic growth continues, reaching approximately 6.7% in 2021. The broad unemployment rate is expected to decrease gradually, to 7.5% by the end of 2021. The expansionary monetary policy is expected to remain in place. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide. See the forward-looking information warning in Section A.1 above.

On the operational level, and on the level of business continuity, the Bank applied a series of processes and measures during the period of the crisis, including remote work, reducing and/or splitting unit personnel, changes in the manner of operation of branches and in activity with customers, deferral of mortgage and loan payments, and more, in accordance with the instructions of the government and of the Ministry of Health, and the changes in regulation by the Bank of Israel, in particular Temporary Proper Conduct of Banking Business Directive 250 of the Banking Supervision Department, which is updated from time to time. In general, the operational risks, including cyber risks, related to the crisis and its effects have been analyzed, and controls and appropriate measures to minimize risk are being considered and implemented accordingly. However, the changing modes of operation due to the crisis of the spread of the coronavirus entail a certain increase in operational risk, in the broad sense. Modes of activity are changing frequently, according to the severity of the spread of the coronavirus and the government guidelines in this area; at this time, routine operational activity has resumed, with adherence to the guidelines.

In view of the coronavirus crisis, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order (which has been extended until December 31, 2021); for further details, see the section "Capital and leverage," below, and the section "Capital, capital adequacy, and leverage" in the Report of the Board of Directors and the Board of Management.

On March 31, 2020, the Board of Directors of the Bank resolved that the minimum target common equity Tier 1 capital ratio of the Bank would stand at 9.5%. For details regarding the circular of the Banking Supervision Department updating the temporary order, including with regard to the possibility of distributing dividends, see Section C.2, "Capital adequacy," below. The common equity Tier 1 capital ratio as at September 30, 2021, is 11.18%, and the leverage ratio is 6.32%, compared with a common equity Tier 1 capital ratio of 11.52% and a leverage ratio of 6.78% on December 31, 2020.

The average consolidated liquidity ratio of the Bank was 127% in the quarter ended September 30, 2021.

From the beginning of the crisis to December 31, 2020, the Bank recorded an increase in the collective provision for credit losses in the amount of approximately NIS 1.6 billion, in addition to individual provisions in respect of specific identified borrowers. For further details, see the Financial Statements as at December 31, 2020. In the first nine months of 2021, the Bank recorded income from credit losses in a total amount of approximately NIS 1,407 million (of which, income in the amount of approximately NIS 972 million was recorded in the collective allowance). The decrease in the collective allowance was recorded in view of the improvement in macroeconomic parameters, the decrease in average charge-offs, the volume of problematic debts, and the substantial decrease in the volume of debts in deferral of payments. This decrease was partly offset by an increase in the allowance, due to an increase in credit volumes. Due to the coronavirus crisis, as at September 30, 2021, loan payments (principal and/or interest) in the amount of approximately NIS 346 million were deferred, of the total loans in deferral of payments, as detailed in the section "Credit risk," below.

The volatility in the financial markets in the early part of the crisis, which led to an increase in the risk estimates of the activity of the dealing room of the Bank and its customers, subsequently subsided, and the decrease in value of tradable assets was replaced by recovery, with some indices actually reaching record levels, due to the monetary expansion in Israel and worldwide.

It is not possible to estimate the extent of the future spread of the coronavirus, and it is also not possible to estimate or quantify the duration and depth of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

B.6. Discontinuation of publication of the LIBOR interest rates

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) have formulated alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel. In March 2021, it was announced that a decision had been reached to discontinue the publication of the LIBOR interest rates in the following currencies as of January 1, 2022: euro, British pound, Swiss franc, and yen; and to discontinue the publication of the dollar LIBOR rate as of June 30, 2023. Concurrently, based on ISDA decisions, conversion rates were established between the LIBOR and the new interest rates in derivative instruments based on this protocol.

As part of the Bank's preparations for these changes, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes are being made to legal documents; and instruction is being provided to Bank employees and customers. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time. An additional letter was sent in February 2021, containing updates based on the additional information that had come to the attention of the Bank.

The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

In October 2021, the Bank of Israel issued a Proper Conduct of Banking Business Directive on the subject, "Transition from the LIBOR Interest Rate." Among other matters, the directive addresses processes at banks for the selection of alternate rates; existing contracts (transition management), treatment of new contracts until the date of discontinuation of publication, and contracts after December 31, 2021; and publication of information for customers and management of the risks arising from the process. The Bank is preparing to apply this directive imminently.

For further details, see Note 1 to the Condensed Financial Statements and the website of the Bank.

B.7. Review of weighted risk-adjusted assets

Table B-3: Review of weighted risk-adjusted assets

		Risk-weighted assets		Minimum capital requirements*
		September 30, 2021	June 30, 2021	**September 30, 2021**
		NIS millions		
1	Credit risk (standardized approach)**	**338,149**	321,322	**42,269**
6	Counterparty credit risk (standardized approach)	**7,194**	6,400	**899**
10	Credit valuation adjustment (CVA)	**2,703**	2,744	**338**
15	Settlement risk	**-**	-	**-**
16	Securitization exposures (standardized approach)	**13**	13	**2**
25	Amounts below deduction thresholds (subject to 250% risk weight)	**8,680**	9,221	**1,085**
	Total credit risk	**356,739**	339,700	**44,593**
20	Market risk (standardized approach)	**3,605**	3,209	**451**
24	Operational risk	**22,634**	22,750	**2,829**
27	Total	**382,978**	365,659	**47,873**

* Capital requirements according to the minimum required total capital ratio, at a rate of 12.5%.

** Credit risk does not include counterparty credit risk, adjustment in respect of credit risk, settlement risk, securitization exposures, and amounts below the deduction thresholds.

C. Capital and leverage

C.1. Composition of capital

Table C-1: Composition of supervisory capital

		September 30, 2021	September 30, 2020	December 31, 2020
		NIS millions		
	Common equity Tier 1 capital			
	Common equity Tier 1 capital – instruments and retained earnings			
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier 1 capital	**8,200**	8,183	8,183
2	Retained earnings, including dividends proposed or declared after the balance sheet date	**36,045**	31,767	32,682
3	Accumulated other comprehensive income and disclosed retained earnings	**(1,528)**	(979)	(992)
5	Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	**9**	11	10
6	Common equity Tier 1 capital before supervisory adjustments and deductions	**42,726**	38,982	39,883
	Common equity Tier 1 capital – supervisory adjustments and deductions			
10	Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	**20**	64	62
11	Total accumulated other comprehensive income in respect of cash-flow hedges of items not presented in the balance sheet at fair value	**-**	(1)	-
14	Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	**9**	35	24
21	Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	**-**	78	-
26	Additional supervisory adjustments and deductions established by the Banking Supervision Department	**(106)**	(396)	(273)
26C	Of which: additional supervisory adjustments to common equity Tier 1 capital	**(106)**	(396)	(273)
26C	Of which: in respect of the efficiency plans	**(267)**	(490)	(434)
26C	Of which: in respect of wage tax	**-**	(78)	-
26C	Of which: in respect of the business of the corporation with related persons	**161**	172	161
28	Total supervisory adjustments and deductions in common equity Tier 1 capital	**(77)**	(220)	(187)
29	Common equity Tier 1 capital	**42,803**	39,202	40,070

Table C-1: Composition of supervisory capital (continued)

		September 30, 2021	September 30, 2020	December 31, 2020
		NIS millions		
	Additional Tier 1 capital			
	Additional Tier 1 capital – instruments			
33	Additional Tier 1 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**244**	488	488
36	Additional Tier 1 capital before deductions	**244**	488	488
	Additional Tier 1 capital – deductions			
43	Total deductions from additional Tier 1 capital	**-**	-	-
44	Additional Tier 1 capital	**244**	488	488
45	Tier 1 capital	**43,047**	39,690	40,558
	Tier 2 capital			
	Tier 2 capital – instruments and provisions			
46	Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments	**715**	-	700
47	Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**11**	20	17
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**4,258**	6,498	5,490
49	Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital	**242**	1,868	1,560
50	Collective allowances for credit losses before the effect of related tax	**4,407**	3,914	4,014
51	Tier 2 capital before deductions	**9,391**	10,432	10,221
	Tier 2 capital – deductions			
57	Total supervisory adjustments to Tier 2 capital	**-**	-	-
58	Tier 2 capital	**9,391**	10,432	10,221
59	Total capital	**52,438**	50,122	50,779
	Risk-weighted assets			
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**382,392**	339,463	347,218
	Of which: credit risk assets	**356,153**	312,636	320,605
	Of which: market risk assets	**3,605**	3,541	3,447
	Of which: operational risk assets	**22,634**	23,286	23,166
60	Total risk-weighted assets	**382,978**	339,961	347,762

Table C-1: Composition of supervisory capital (continued)

		September 30, 2021	September 30, 2020	December 31, 2020
		NIS millions/percent		
	Capital ratios and capital preservation cushions			
61	Common equity Tier 1 capital	**11.18%**	11.53%	11.52%
62	Tier 1 capital	**11.24%**	11.67%	11.66%
63	Total capital	**13.69%**	14.74%	14.60%
	Minimum requirements established by the Banking Supervision Department			
69	The minimum required common equity Tier 1 capital ratio is 10%; in the period of the Temporary Order, it is 9%. A capital requirement was added to this ratio at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order.	**9.20%**	9.26%	9.24%
71	The minimum required total capital ratio is 13.5%; in the period of the Temporary Order, it is 12.5%. Data for September 30, 2020, and December 31, 2020, have been updated, in light of the clarification of the Banking Supervision Department indicating that the additional capital requirement in respect of housing loans is to be added to the common equity Tier 1 capital ratio only.	**12.50%**	12.50%	12.50%
	Amounts below the deduction threshold (before risk weighting)			
72	Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**1,456**	1,650	1,599
73	Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**189**	453	423
75	Deferred tax assets arising from timing differences, below the deduction threshold	**3,423**	3,920	3,893
	Ceiling for inclusion of provisions in Tier 2			
76	Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	**4,407**	5,340	5,378
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	**4,459**	3,914	4,014
	Capital instruments not qualifying as supervisory capital, which are subject to the transitional directives			
82	Present ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives	**244**	488	488
83	Amount deducted from additional Tier 1 capital due to the ceiling	**1,325**	1,046	1,046
84	Present ceiling amount for instruments included in Tier 2 capital subject to the transitional directives	**1,526**	3,051	3,051
85	Amount deducted from Tier 2 capital due to the ceiling	**-**	-	-

C.2. Capital adequacy

C.2.a. Capital-adequacy target

On March 31, 2020, the Banking Supervision Department issued a temporary order on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the Temporary Order, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months (until March 31, 2021). The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order, provided that the capital ratios of the banking corporation do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021, and stating that in the six-month period from the end of the period of validity of the Temporary Order, a reduction in capital ratios of up to 0.3% of the minimum capital ratio would not be considered a breach of the Temporary Order. On September 30, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until December 31, 2021.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans for which a relief was granted under the Temporary Order. According to the guidelines of the Banking Supervision Department, the additional capital requirement in respect of housing loans is to be added to the common equity Tier 1 capital ratio only.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at September 30, 2021, and for the duration of the period of the Temporary Order, stand at 9.20% and 12.5%, respectively (instead of 10.20% and 13.5% at the end of the period of the Temporary Order).

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the minimum target common equity Tier 1 capital ratio to 9.5%. Upon the expiration of the Temporary Order (December 31, 2021), if it is not extended or updated, the Board of Directors intends to update the internal target for the common equity Tier 1 capital ratio to 10.5%.

C.2.b. Planning and management of capital by the Bank

Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. The foregoing notwithstanding, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved.

For details regarding the capital-adequacy target of the Bank, see the section "Capital adequacy" in the Report of the Board of Directors and Board of Management.

In light of the uncertainty that existed with regard to the investigation of the United States authorities prior to the approval of the resolutions with them, for reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank did not declare the distribution of dividends from ongoing earnings in respect of profits accrued in 2018 (beginning in the second quarter) and 2019, with no change to the dividend distribution policy of the Bank.

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

In view of the notification of the Banking Supervision Department of March 29, 2020, and its temporary order (see Section 2 concerning capital adequacy in the Report of the Board of Directors and Board of Management) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to comply with the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions were clearer, the Bank would continue to refrain from performing distributions from ongoing earnings.

On July 26, 2021, Banking Supervision Department issued a circular updating the temporary order. On September 30, 2021, the Supervisor of Banks extended the period of validity of the temporary order until December 31, 2021. In the explanatory materials published, the Supervisor of Banks noted, among other matters, that despite the growing process of emergence from the coronavirus crisis, the uncertainty and risk necessitated continued cautious and conservative capital planning, and a cautious and conservative approach to distribution. The Supervisor of Banks further noted in the explanatory materials that distribution in an amount greater than 30% of the profits of a bank (in 2020 and 2021) would not be considered cautious and conservative capital planning; that such distribution would also be possible during the period of validity of the temporary order; and that he expected banking corporations to continue to use the capital and liquidity surpluses they enjoyed in order to increase credit and support economic activity, rather than for distribution, certainly while the bank was making use of the relief permitting reduced capital requirements.

On August 1, 2021, the Board of Directors of the Bank announced the distribution of dividends in the amount of NIS 616.8 million, constituting 30% of the net profit of the Bank in 2020. In addition, at the date of approval of the financial statements for the third quarter, the Board of Directors approved distribution of a dividend at a rate of 30% of the profits of the third quarter of 2021 (a total of NIS 362 million), with added distribution of NIS 500 million in respect of profits accrued in the first half of 2021, i.e. total distribution in the amount of NIS 862 million, to be paid out on December 8, 2021.

The Bank estimates that it will be possible to return to a trajectory of distribution from ongoing earnings, subject to tests according to the law, developments pertaining to the coronavirus crisis, additional regulatory guidelines and positions, as they may be, and the results of the Bank.

C.2.c. Implementation of regulatory directives with an effect on measurement and capital-adequacy matters

Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

Since the reliefs were granted, the Bank has announced personnel efficiency plans at a total volume of NIS 1,114 million, net of tax effect.

The effect of the aforesaid plans was allocated to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The remaining effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.08% as at September 30, 2021.

The subsidiary of the Bank in Turkey

In view of the economic and political situation in Turkey, and as part of the strategic plan of the Bank, a decision was made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

For details regarding the agreement for the sale of the holdings of the Bank in Bank Pozitif, and the rescission of the agreement, see the section “Principal companies” in the Report of the Board of Directors and Board of Management as at September 30, 2021.

In January 2019, a letter was received from the Banking Supervision Department in Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank was required to increase the risk weighting rates of risk-adjusted assets in respect of the activity of Bank Pozitif, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 600%.

The Bank also has a credit line for Bank Pozitif in the amount of approximately USD 50 million, at an interest rate below market terms. In accordance with a requirement of the Banking Supervision Department in Israel, due to the aforesaid pricing, the balance of the credit line was deducted from supervisory capital.

The aforesaid effects, in total, on the common equity Tier 1 capital ratio of the Bank as at September 30, 2021, amount to a reduction of 0.08%.

In October 2021, the Bank approved the renewal of a credit line for Bank Pozitif in the amount of approximately USD 45 million (which will be renewed in practice at the expiration date of the present line, at the beginning of December), at an interest rate below market terms, for twelve months, or until such time as the Bank ceases to be a principal shareholder of Bank Pozitif, whichever is earlier. The pricing of the credit line takes into consideration, among other matters, the special circumstances of Bank Pozitif and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif, in view of the challenging condition of the Turkish economy and of Bank Pozitif, as well as the position of the tax authorities in Turkey, as detailed below. Bank Pozitif has received a notice from the tax authorities in Turkey, in connection with a tax audit for 2018, according to which, in their view, the pricing of the credit line collected by the Bank at that time was above market terms, according to their estimate, and the amounts of interest paid in respect thereof are therefore to be calculated and taxed as dividend payments.

Effect of the expected implementation of accounting rules concerning estimated credit losses on supervisory capital

Banking corporations are required to allocate the effect of the initial implementation of accounting rules concerning estimated credit losses to retained earnings on January 1, 2022. In December 2020, the Banking Supervision Department issued a circular pursuant to which, if the initial implementation causes a decrease in the common equity Tier 1 capital of a banking corporation, the banking corporation is permitted to include this decrease gradually, over the course of three years.

The Bank is preparing to implement this directive; at this stage, it is not possible to estimate its effect reliably. For additional details, see Note 1D to the Condensed Financial Statements.

Implementation of external credit ratings

Beginning in the first quarter of 2021, the Bank transitioned to the use of a single rater for capital-adequacy measurement purposes (as permitted by the directives of the Bank of Israel), instead of the Bank's previous practice of using the lower of the ratings of two raters. The rating agency which has remained in use is S&P (Standard & Poor's). The effect of the transition to a single rater, at the transition date, is an increase of approximately 0.12% in the common equity Tier 1 capital ratio and an increase of approximately 0.16% in the total capital ratio.

Early redemption of capital notes in Tier 2 capital

In July 2021, Hapoalim Hanpakot executed full early redemption of Series 1 subordinated notes, at a volume of approximately NIS 1.2 billion. The amount redeemed was not recognized in supervisory capital, beginning with the financial statements as at June 30, 2021.

Issuance of notes with a loss-absorption mechanism

In October 2021, the Bank issued subordinated notes, in an international private offering for institutional investors, at a volume of USD 1 billion (approximately NIS 3.2 billion), in consideration for the par value. The notes include a mechanism for principal loss absorption through forced conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or that the Banking Supervision Department gives notice that the conversion is necessary because without it, in the opinion of the Banking Supervision Department, the Bank would reach the point of non-viability, or a decision regarding an injection of capital from the public sector, or equivalent support, without which the Bank would reach the point of non-viability, as determined by the Banking Supervision Department. The notes will be included in the Tier 2 capital of the Bank, pursuant to Proper Conduct of Banking Business Directive 202, and will contribute to more efficient utilization of capital at the Bank. The notes are for a period of 10.25 years. The Bank has an option for full early redemption, beginning five years from the date of issuance of the notes, subject to the fulfillment of certain conditions. The subordinated notes bear interest at a fixed annual rate of 3.255%, to be paid in semi-annual payments (with the exception of the first payment, to be paid after approximately nine months), to be updated when five years and three months have elapsed from the date of issuance, if no early redemption has been performed, according to the yield to maturity of five-year United States government bonds at that date, with the addition of a margin of 2.155%. The Bank intends to use an amount equal to the consideration from the offering to finance or refinance "Eligible Green Projects," as defined in the issuance documents.

Draft directive concerning the standardized approach for the calculation of exposure to counterparty credit risk – SA-CCR

In March 2014, the Basel Committee on Banking Supervision (BCBS) issued updates to the Basel 3 Directives (also known as Basel 4), including a directive on the subject, "The standardized approach for measuring counterparty credit risk" (SA-CCR). In October 2021, the Banking Supervision Department issued a draft update of Proper Conduct of Banking Business Directive 203A containing instructions on the treatment of counterparty credit risk according to SA-CCR. The implementation date is July 1, 2022.

This approach replaces the existing approaches in Proper Conduct of Banking Business Directive 203 (the current exposure approach and the standardized approach) for the calculation of counterparty exposure at default (EAD). The main updates in the new approach refer to different treatment of netting sets that include margin adjustment agreements and netting sets that do not include margin adjustment agreements, updated supervisory risk coefficients, and the distribution of derivative exposures in netting sets to hedging sets allowing full or partial offsets of the exposures. The Bank is preparing to implement this directive and examining its implications. According to the estimates of the Bank, the directive will lead to an increase in capital requirements in respect of derivative instruments and a decrease in the leverage ratio, and will affect the calculation of the sole borrower limit; however, at this stage it is not possible to reliably quantify the scope of this effect.

C.2.d. Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 20% and 10%, respectively, in 2020 and 2021.

C.3. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations must maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) must maintain a leverage ratio of no less than 5.5% (instead of 6%). Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order. On March 22, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until September 30, 2021. On September 30, 2021, the Banking Supervision Department issued a circular extending the period of validity of the Temporary Order until December 31, 2021.

Table C-2: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

	September 30, 2021	September 30, 2020	December 31, 2020
	NIS millions		
Total consolidated assets as per published financial statements	**604,324**	513,686	539,602
Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-	-
Adjustment for fiduciary assets recognized in the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement	**-**	-	-
Adjustments for derivative financial instruments	**1,164**	(4,073)	(8,048)
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**71,527**	59,378	61,885
Other adjustments	**3,619**	4,332	4,398
Exposure for the purposes of the leverage ratio	**680,634**	573,323	597,837

Table C-3: Leverage ratio disclosure

	September 30, 2021	September 30, 2020	December 31, 2020
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**596,660**	505,872	528,804
Asset amounts deducted in determining Tier 1 capital	**(20)**	(64)	(62)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**596,640**	505,808	528,742
Derivative exposures			
Replacement cost associated with all derivatives transactions	**2,711**	2,828	3,886
Add-on amounts for potential future exposure associated with all derivatives transactions	**10,749**	7,016	7,109
Gross-up for collateral provided in respect of derivatives deducted from balance sheet assets pursuant to the Public Reporting Directives	**-**	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(2,212)**	(2,144)	(4,153)
Exempted central counterparty 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	**11,248**	7,700	6,842
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**1,219**	437	368
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	**-**	-	-
Central counterparty credit risk exposure for securities financing transaction assets	**-**	-	-
Agent transaction exposures	**-**	-	-
Total securities financing transaction exposures	**1,219**	437	368
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**212,873**	179,503	188,831
Adjustments for conversion to credit equivalent amounts	**(141,346)**	(120,125)	(126,946)
Off-balance sheet items	**71,527**	59,378	61,885
Capital and total exposures			
Tier 1 capital*	**43,047**	39,690	40,558
Total exposures*	**680,634**	573,323	597,837
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**6.32%**	6.92%	6.78%
Minimum leverage ratio required by the Banking Supervision Department**	**6.00%**	6.00%	6.00%

* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section "Improving operational efficiency," above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at September 30, 2021, estimated at approximately 0.04%, is allocated in equal parts over five years, beginning at the inception date thereof.

** Pursuant to the circular of the Banking Supervision Department, the minimum leverage ratio is 5.5% during the period of the Temporary Order. For further details, see the section "Leverage ratio," above.

The decrease in the leverage ratio as at September 30, 2021, derives in part from an increase in credit exposures. It also resulted from an increase in the volume of the balance sheet, due to an increase in deposits from the public, particularly institutional deposits, and, by contrast, an increase in cash and deposits with banks, as a result of the monetary expansion applied by the Bank of Israel in previous periods.

D. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (market value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments. The credit risk arising from transactions in derivative financial instruments is counterparty risk – the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. Counterparty risk is addressed separately in Section E, below.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

In accordance with the reporting directives of the Bank of Israel, this section contains items to which the Basel credit-risk framework applies, pursuant to Proper Conduct of Banking Business Directive 203, unless explicitly noted otherwise.

Effect of the crisis of the spread of the coronavirus

The Bank continues to examine the effects of the coronavirus crisis, while testing internal scenarios. In particular, the Bank is examining the impacts of the scenarios on the credit portfolio, also as a supporting tool for the examination of the adequacy of its credit losses. It is emphasized that such scenarios are applied using different approaches practiced at each bank, which depend on the risk-management methods of the banking corporation; estimates may therefore vary among banking corporations, sometimes materially.

In the scenario used by the Bank to challenge the collective allowance, the Bank assumes that even in the event of further spread of the coronavirus, it would not lead to material restrictions on economic activity. In accordance with this assumption, economic growth continues, reaching approximately 6.7% in 2021. The narrow unemployment rate, which does not include employees on unpaid leave due to COVID-19 or workers who have withdrawn from the job market since the outbreak of the pandemic, is expected to stand at 5.7% at the end of 2021. The expansionary monetary policy is expected to remain in place. The Bank of Israel interest rate is expected to remain at 0.1%.

The collective allowance was reduced by a total of approximately NIS 0.1 billion in the current quarter, and totals approximately NIS 4.4 billion at the date of the financial statements; it serves as a safety cushion against the possible future materialization of individual credit losses and automatic charge-offs, i.e. recognition of higher credit losses, by increasing the collective allowance against possible future materialization of individual losses and automatic charge-offs. According to the scenario prepared by the Bank, if the data of the scenario materialize, and if the effect of the data in the scenario on portfolio quality is as predicted by the models and assumptions applied, the level of possible credit losses of the Bank in the coming year may, at a non-negligible degree of probability, decrease by NIS 0.2 billion, or increase by NIS 0.3 billion, relative to the provision for credit losses forecast for the coming year in the baseline scenario.

The change in the allowance for credit losses mainly results from a decrease in the collective allowance, to reflect improved forecasts regarding the condition of the economy and the extent of future credit losses.

As described above, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full effects of the crisis and the extent of such effects on the Bank. It is emphasized that different assumptions could have given rise to different results, possibly materially, than those described above, and may lead to varying results among the different banking corporations. The estimates of the Bank regarding the possible ramifications of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in Section A.1 above. These estimates are uncertain, and may materialize in a manner materially different than described above.

D.1. Credit quality of credit exposures

Changes in terms of debts within measures to cope with the crisis of the spread of the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the crisis of the spread of the coronavirus, the Bank of Israel issued emphases during the course of 2020 for addressing debts the terms of which have been changed. Pursuant to the trajectories, it has been determined that changes in the terms of loans do not automatically lead to the assignment of a troubled debt restructuring classification to the loans when short-term changes in payments are performed, due to the crisis, for borrowers who were not previously in arrears. It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.

Stabilization of borrowers who are not in arrears on their existing loans and who are sound borrowers confronting financial or operational problems in the short term due to the crisis of the spread of the coronavirus, in general, is not considered troubled debt restructuring, particularly when the following conditions are met:

- The change was performed due to the crisis of the spread of the coronavirus;
- The borrower was not in arrears when the changes were implemented;
- The change is for a short period.

In late 2020, the Bank of Israel issued updated trajectories addressing changes in terms of loans approved after January 1, 2021. According to the updated trajectories, banking corporations are permitted to refrain from applying a troubled debt restructuring classification to housing loans, consumer credit, and credit to small businesses and microbusinesses which were not in arrears of thirty days or more at the date of deferral of payments, regarding which payment deferral is performed within the updated trajectory, from January 1, 2021, to March 31, even if the cumulative deferral exceeds six months. The volume of debts deferred under the updated trajectories and the effects of the implementation of the reliefs in respect thereof are immaterial. It is noted that the volume of debts the terms of which were changed has decreased considerably.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1C to the Condensed Financial Statements.

The Bank offers its customers tools, credit products, and additional products aimed at coping with the crisis. For additional details, see the section "Segments of activity based on management approach" in the Corporate Governance Report.

Details are presented below regarding the balance of debts the terms of which were changed beginning in March 2020, as part of the measures to cope with the coronavirus, which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department, as noted above. The data represent the balance of debts at the reporting date, after repayments performed on debts for which the payment deferral period has ended.

Table D-1: Details regarding the balance of debts the terms of which have been changed[1] in the course of coping with the spread of the coronavirus, which are not classified as troubled debt restructuring

	Debts in payment deferral at report date		
	Recorded debt balance	Number of loans	Amount of deferred payments
	NIS millions		
Large businesses	649	45	68
Mid-sized businesses	340	51	56
Small businesses and microbusinesses	435	1,253	163
Private individuals excluding housing	9	107	3
Housing loans	696	1,222	50
Total – Israel	2,129	2,678	340
Activity overseas	119	2	6
Total as at September 30, 2021	**(3)2,248**	**2,680**	**346**
Total as at December 31, 2020	15,444	77,672	1,415

(1) The payment deferral period is the cumulative period of deferrals granted to a debt, from the beginning of the efforts to cope with the coronavirus, not including deferrals to which the borrower is entitled under any law.
(2) Of which: impaired debts not accruing interest income in the amount of NIS 95 million.
(3) Of which: state-backed loans in the amount of approximately NIS 293 million in deferral of payments.

Further details regarding recorded debt balance of debts in payment deferral					Further details regarding debts in payment deferral by duration of deferral[1]		Debts for which the payment deferral period has ended at the report date	
Problematic debts	Non-problematic debts						Recorded debt balance	Of which: in arrears of 30 days or more
	Debts not at credit execution rating	Debts at credit execution rating in arrears of 30 days or more	Debts at credit execution rating not in arrears	Total non-problematic debts	Debts deferred by more than 3 months, up to 6 months	Debts deferred by more than 6 months		
NIS millions								
103	-	-	546	546	-	546	2,130	7
27	17	-	296	313	7	304	1,774	52
34	49	-	352	401	32	349	5,668	67
-	2	-	7	9	2	5	2,988	63
22	73	19	582	674	43	590	18,190	672
186	141	19	1,783	1,943	84	1,794	30,750	861
94	-	-	25	25	-	25	2,258	18
[2]280	**141**	**19**	**1,808**	**1,968**	**84**	**1,819**	**33,008**	**879**
1,247	2,784	123	11,290	14,197	5,770	7,437	27,024	464

State-backed loans

In view of the coronavirus outbreak, the State resolved on the establishment of a dedicated loan fund, primarily to assist small, mid-sized, and large businesses experiencing cash-flow difficulties as a result of the outbreak. The terms of the loans were determined by the Ministry of Finance, and are uniform for all types of borrowers:

- Interest rate – zero for the first year (paid to the bank by the State); Prime + 1.5% from the second year forward.
- Period – up to ten years, including a grace period of up to twelve months.
- In addition, deferral of loan payments for periods of up to one year was approved, in loans for which the first grace period has ended and no more than three principal payments have been performed.
- Customer collateral – up to 5% of the amount of the loan approved.
- Loan amounts:
  - General track – the lower of 40% of the annual revenue of the customer or NIS 20 million.
  - Amplified track – the lower of 40% of the annual revenue of the customer or NIS 20 million.

Thus far, approximately 80% of the state-backed credit has been granted to small businesses and microbusinesses, and approximately 20% to mid-sized and large businesses. The risk of this credit is determined by the State at the following rates: up to 85% in specific credit, and no more than 15% for the overall portfolio in the general track; and up to 95% in specific credit, and no more than 60% for the overall portfolio in the amplified track launched on June 21, 2020. The amplified track consists of businesses substantially hurt by the spread of the coronavirus, which demonstrated a significant decrease in revenue in 2020 compared with the preceding year, and which do not have the independent ability to cope with the cash-flow damages.

For details regarding the clarification of the Banking Supervision Department regarding the accounting treatment of payment deferrals granted for state-backed loans within the effort to cope with the coronavirus crisis, see Note 1C to the Condensed Financial Statements.

Table D-2: Details regarding the recorded debt balance of state-backed loans within the effort to cope with the coronavirus

	September 30, 2021	December 31, 2020
	NIS millions	
Small businesses and microbusinesses	**4,286**	4,366
Mid-sized businesses	**844**	995
Large businesses	**234**	306
Total	**5,364**	5,667

Table D-3: Credit risk indicators

	As at	
	September 30, 2021	December 31, 2020
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.03%**	1.29%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.21%**	0.24%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.48%**	2.00%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	**1.29%**	1.75%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**144.66%**	155.18%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**119.87%**	131.08%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**1.99%**	2.55%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.58%)**	0.64%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**(0.10%)**	0.09%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**(6.60%)**	4.28%

* Before deduction of the allowance for credit losses.
** Includes allowance for credit losses in respect of off-balance sheet credit instruments.

Portfolio quality analysis

Decreases (improvements) were recorded in all credit risk indicators in the first nine months of 2021, in comparison to the end of 2020, primarily the following:

- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.
- The balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public.
- The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.
- Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public.
- The provision (income) for credit losses as a percentage of the average recorded balance of credit to the public.
- Net charge-offs in respect of credit to the public (recovery), as a percentage of the average recorded balance of credit to the public.

The improvement in portfolio quality indicators in this period was largely influenced by the economic recovery and government support measures, as well as by corresponding improvements in estimates of the impact of the crisis.

With regard to other indicators that refer to only to the risk in the portfolio of credit for private individuals, see Table D-13: Information regarding problematic debts in respect of private individuals in Israel, below.

Table D-4: Credit quality of credit exposures

		September 30, 2021			
		Gross balances		Allowances f or credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	**4,213**	**354,316**	**5,055**	**353,474**
2	Bonds	**-**	**66,740**	**-**	**66,740**
3	Off-balance sheet exposures	**678**	**210,760**	**719**	**210,719**
4	Total	**4,891**	**631,816**	**5,774**	**630,933**

		September 30, 2020*			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	4,926	313,579	6,185	312,320
2	Bonds	-	65,785	-	65,785
3	Off-balance sheet exposures	710	178,562	789	178,483
4	Total	5,636	557,926	6,974	556,588

		December 31, 2020*			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	4,688	316,903	6,150	315,441
2	Bonds	-	69,500	-	69,500
3	Off-balance sheet exposures	669	187,889	781	187,777
4	Total	5,357	574,292	6,931	572,718

* Restated.

For further details, see Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance, in the Report of the Board of Directors and Board of Management.

D.2. Credit risk exposures

Table D-5: Details of exposures by economic sector

	September 30, 2021									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the period ended September 30, 2021[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Income for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	**3,214**	**3,074**	**37**	**3,204**	**2,479**	**37**	**8**	**(28)**	**(28)**	**16**
Mining and quarrying	**1,834**	**906**	**922**	**1,832**	**1,279**	**921**	**850**	**(1)**	**-**	**701**
Industry	**33,608**	**32,596**	**597**	**33,152**	**15,320**	**596**	**212**	**(18)**	**30**	**310**
Construction and real estate – construction[7]	**90,549**	**89,010**	**668**	**90,373**	**39,239**	**668**	**434**	**(6)**	**(114)**	**677**
Construction and real estate – real-estate activities	**34,520**	**32,541**	**356**	**34,224**	**27,271**	**356**	**135**	**(202)**	**(75)**	**446**
Electricity and water supply	**12,801**	**11,889**	**861**	**11,933**	**6,499**	**828**	**222**	**(6)**	**-**	**188**
Commerce	**40,255**	**38,301**	**872**	**39,949**	**25,931**	**871**	**273**	**(172)**	**(5)**	**789**
Hotels, hospitality, and food services	**11,677**	**10,326**	**1,089**	**11,647**	**9,788**	**1,070**	**173**	**(35)**	**11**	**267**
Transportation and storage	**11,775**	**10,946**	**422**	**11,661**	**7,880**	**396**	**168**	**(29)**	**4**	**117**
Information and communications	**6,942**	**6,648**	**160**	**6,909**	**3,474**	**160**	**149**	**(191)**	**(40)**	**139**
Financial services	**46,733**	**46,431**	**159**	**38,313**	**20,511**	**159**	**6**	**(20)**	**(2)**	**223**
Other business services	**15,978**	**14,683**	**184**	**15,907**	**10,231**	**184**	**92**	**(21)**	**22**	**184**
Public and community services	**9,003**	**8,499**	**72**	**8,927**	**6,509**	**72**	**39**	**(15)**	**2**	**67**
Total commercial[8]	**318,889**	**305,850**	**6,399**	**308,031**	**176,411**	**6,318**	**2,761**	**(744)**	**(195)**	**4,124**
Private individuals – housing loans	**116,295**	**113,677**	**608**	**116,295**	**109,428**	**608**	**-**	**(231)**	**-**	**520**
Private individuals – other	**52,493**	**49,438**	**733**	**52,486**	**33,874**	**733**	**657**	**(417)**	**(16)**	**622**
Total public – activity in Israel	**487,677**	**468,965**	**7,740**	**476,812**	**319,713**	**7,659**	**3,418**	**(1,392)**	**(211)**	**5,266**
Banks in Israel[9]	**2,084**	**2,084**	**-**	**1,066**	**146**	**-**	**-**	**-**	**-**	**-**
Israeli government	**45,075**	**45,075**	**-**	**830**	**827**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**(1)534,836**	**516,124**	**7,740**	**478,708**	**320,686**	**7,659**	**3,418**	**(1,392)**	**(211)**	**5,266**

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 320,686; 43,141; 1,219; 3,719; and 166,071 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) Including balance sheet credit risk in the amount of approximately NIS 625 million and off-balance sheet credit risk in the amount of approximately NIS 830 million extended to certain purchasing groups, which are currently in the process of construction. Also includes off-balance sheet credit risk in the amount of approximately NIS 13,416 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 49 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	September 30, 2021									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the period ended September 30, 2021[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	**356**	**356**	**-**	**356**	**227**	**-**	**-**	**(1)**	**-**	**1**
Mining and quarrying	**1,088**	**1,062**	**25**	**618**	**66**	**25**	**-**	**(1)**	**-**	**2**
Industry	**4,376**	**3,734**	**551**	**3,344**	**2,148**	**551**	**6**	**(3)**	**(14)**	**32**
Construction and real estate	**8,221**	**6,938**	**877**	**8,220**	**6,347**	**877**	**477**	**(25)**	**(13)**	**246**
Electricity and water supply	**780**	**772**	**8**	**403**	**153**	**8**	**8**	**-**	**-**	**6**
Commerce	**3,083**	**2,718**	**196**	**3,037**	**2,400**	**196**	**61**	**1**	**(4)**	**25**
Hotels, hospitality, and food services	**3,574**	**2,209**	**792**	**3,574**	**2,750**	**792**	**109**	**11**	**-**	**92**
Transportation and storage	**945**	**793**	**96**	**614**	**497**	**96**	**42**	**(3)**	**(1)**	**30**
Information and communications	**1,984**	**1,964**	**20**	**1,753**	**1,176**	**20**	**19**	**-**	**(1)**	**13**
Financial services	**8,935**	**8,866**	**68**	**3,589**	**2,549**	**68**	**-**	**4**	**(6)**	**20**
Other business services	**978**	**888**	**6**	**978**	**730**	**6**	**-**	**1**	**-**	**8**
Public and community services	**1,595**	**1,510**	**27**	**1,383**	**1,023**	**27**	**27**	**1**	**-**	**18**
Total commercial[7]	**35,915**	**31,810**	**2,666**	**27,869**	**20,066**	**2,666**	**749**	**(15)**	**(39)**	**493**
Private individuals – housing loans	**528**	**496**	**29**	**528**	**512**	**29**	**-**	**-**	**-**	**7**
Private individuals – other	**182**	**178**	**2**	**182**	**56**	**2**	**2**	**-**	**-**	**3**
Total public – activity overseas	**36,625**	**32,484**	**2,697**	**28,579**	**20,634**	**2,697**	**751**	**(15)**	**(39)**	**503**
Banks overseas[8]	**28,193**	**28,191**	**-**	**16,745**	**16,015**	**-**	**-**	**-**	**-**	**1**
Governments overseas	**18,970**	**18,814**	**-**	**1,222**	**1,194**	**-**	**-**	**-**	**-**	**4**
Total activity overseas	**(1)83,788**	**79,489**	**2,697**	**46,546**	**37,843**	**2,697**	**751**	**(15)**	**(39)**	**508**
Total in Israel and overseas	**618,624**	**595,613**	**10,437**	**525,254**	**358,529**	**10,356**	**4,169**	**(1,407)**	**(250)**	**5,774**

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 37,841; 23,599; 0; 6,365; and 15,983 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 0 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	December 31, 2020									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2020[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	3,041	2,887	47	3,029	2,288	46	18	(20)	(19)	18
Mining and quarrying	1,650	678	972	1,642	1,377	970	933	164	(2)	701
Industry	32,186	30,904	826	31,498	14,112	810	331	43	14	358
Construction and real estate – construction[7]	75,580	73,583	744	75,372	29,937	744	480	(46)	(92)	568
Construction and real estate – real-estate activities	29,529	27,119	1,009	29,195	23,052	994	178	65	(102)	569
Electricity and water supply	10,028	9,024	950	8,821	5,162	902	264	46	4	195
Commerce	38,483	35,866	1,305	38,162	25,148	1,296	456	282	126	966
Hotels, hospitality, and food services	11,161	9,410	1,226	11,111	9,347	1,192	188	249	13	311
Transportation and storage	9,995	8,992	501	9,855	6,595	459	85	28	27	149
Information and communications	6,670	6,258	290	6,589	3,734	290	238	(57)	(6)	289
Financial services	41,714	41,398	186	35,011	20,359	186	6	49	8	239
Other business services	15,257	13,941	199	15,222	9,619	199	105	134	59	223
Public and community services	8,500	8,049	79	8,434	6,046	79	40	38	11	84
Total commercial[8]	283,794	268,109	8,334	273,941	156,776	8,167	3,322	975	41	4,670
Private individuals – housing loans	106,659	103,585	627	106,659	98,956	627	1	314	5	752
Private individuals – other	54,909	50,568	808	54,901	33,838	808	740	447	209	1,023
Total public – activity in Israel	445,362	422,262	9,769	435,501	289,570	9,602	4,063	1,736	255	6,445
Banks in Israel[9]	2,833	2,833	-	1,110	188	-	-	-	-	-
Israeli government	51,398	51,398	-	954	954	-	-	-	-	-
Total activity in Israel	[1]499,593	476,493	9,769	437,565	290,712	9,602	4,063	1,736	255	6,445

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 290,712; 49,974; 368; 5,881; and 152,658 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) Including balance sheet credit risk in the amount of approximately NIS 621 million and off-balance sheet credit risk in the amount of approximately NIS 478 million extended to certain purchasing groups, which are currently in the process of construction. Also includes off-balance sheet credit risk in the amount of approximately NIS 11,819 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 52 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	December 31, 2020									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2020[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	330	330	-	330	240	-	-	-	-	2
Mining and quarrying	1,245	1,224	20	569	428	20	20	3	-	4
Industry	3,955	3,162	623	2,750	1,532	623	94	37	22	27
Construction and real estate	7,585	5,925	901	7,581	6,136	901	215	123	(10)	255
Electricity and water supply	782	771	9	378	166	9	9	-	(1)	5
Commerce	2,947	2,583	191	2,535	1,899	191	75	(30)	(13)	20
Hotels, hospitality, and food services	3,549	2,479	455	3,549	2,671	455	15	46	-	80
Transportation and storage	982	712	181	642	605	181	79	17	5	31
Information and communications	1,816	1,714	27	1,318	904	27	21	10	3	11
Financial services	8,058	8,057	2	2,957	1,984	2	1	(10)	(1)	13
Other business services	714	613	-	714	561	-	-	4	-	7
Public and community services	1,224	1,136	32	999	741	32	32	6	-	17
Total commercial[7]	33,187	28,706	2,441	24,322	17,867	2,441	561	206	5	472
Private individuals – housing loans	508	476	26	508	487	26	-	3	-	6
Private individuals – other	215	209	2	215	49	2	1	1	3	3
Total public – activity overseas	33,910	29,391	2,469	25,045	18,403	2,469	562	210	8	481
Banks overseas[8]	26,320	26,320	-	11,949	11,233	-	-	(1)	-	1
Governments overseas	11,836	11,184	-	1,272	1,243	-	-	(2)	-	4
Total activity overseas	[1]72,066	66,895	2,469	38,266	30,879	2,469	562	207	8	486
Total in Israel and overseas	571,659	543,388	12,238	475,831	321,591	12,071	4,625	1,943	263	6,931

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 30,879; 19,526; 0; 9,009; and 12,652 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 0 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

D.2.a. Credit exposure to foreign financial institutions

Table D-6: Exposure of the Bank Group to foreign financial institutions(1)

	September 30, 2021			December 31, 2020		
	Balance sheet credit risk(2)	Present off-balance sheet credit risk(3)	Total present credit risk	Balance sheet credit risk(2)	Present off-balance sheet credit risk(3)	Total present credit risk
	NIS millions					
External credit rating(5)						
AAA to AA-	**2,932**	**1,886**	**4,818**	2,183	2,026	4,209
A+ to A-	**11,457**	**2,396**	**13,853**	15,141	1,924	17,065
BBB+ to BBB-	**523**	**105**	**628**	765	84	849
BB+ to B-	**4**	**16**	**20**	4	19	23
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**147**	**58**	**205**	159	43	202
Total present credit exposures to foreign financial institutions*	**15,063**	**4,461**	**19,524**	18,252	4,096	22,348
Of which: problematic credit risk(4)	**-**	**-**	**-**	-	-	-
Of which: balance of impaired debts	**-**	**-**	**-**	-	-	-
Individual allowance for credit losses	**-**	**-**	**-**	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**15,063**	**4,461**	**19,524**	18,252	4,096	22,348
Collective allowance for credit losses	**7**	**1**	**8**	5	-	5

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 213 million, of which a total of NIS 192 million rated A-, a total of NIS 8 million rated BBB+, and a total of NIS 13 million rated BBB- (total exposure at the end of 2020 was approximately NIS 73 million, of which a total of NIS 42 million rated A-, a total of NIS 12 million rated BBB+, and a total of NIS 19 million rated BBB-).
Italy – Total exposure of approximately NIS 106 million, of which a total of NIS 103 million rated BBB- and the remaining amount of NIS 2 million rated BB (total exposure at the end of 2020 was approximately NIS 16 million, of which a total of NIS 15 million rated BBB- and the remaining amount of NIS 1 million rated BB).
Ireland – Total exposure of approximately NIS 1 million, unrated (total exposure at the end of 2020 was approximately NIS 1 million, unrated).
There is no exposure to financial institutions in Greece or Portugal.

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) Credit risk that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 19.5 billion on September 30, 2021, a decrease of approximately NIS 2.8 billion, compared with approximately NIS 22.3 billion at the end of 2020. This decrease resulted from a decrease in balance sheet exposure in the amount of approximately NIS 3.2 billion, mainly due to a decrease in the holdings of the Bank in bonds of foreign financial institutions, and from an increase in off-balance sheet exposure in the amount of approximately NIS 0.4 billion. Approximately 95.6% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 79.4% in banks and bank holding companies, 19.6% in insurance companies, and 1% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (66.8%) and in the United States (24.8%).

The Bank continues to maintain frequent and regular monitoring of the adverse effects of the coronavirus crisis on the global economy and on the financial results of financial institutions worldwide, and, as necessary, acts to reduce all of the relevant risks, including credit risk and settlement risk.

The data on "banks and governments overseas" in the disclosure of credit risk by economic sector, in the section "Review of risks" and in the Report on Risks (hereinafter: the disclosure by economic sector), includes exposures in respect of banks overseas and does not include other financial institutions, which are primarily presented within the financial services sector. This sector also includes central banks, whereas the table above does not include exposure in respect of central banks.

In the disclosure by economic sector, "total credit risk" includes balance sheet and off-balance sheet balances in respect of derivatives, whereas the table above includes only balance sheet balances in respect of derivatives.

In addition, the total of "debts and off-balance sheet credit risk" in the disclosure by economic sector includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

D.3. Additional information regarding exposures to credit risks

D.3.a. Construction and real estate

Table D-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity

	Balance as at September 30, 2021				Balance as at June 30, 2021	Balance as at Dec. 31, 2020	Change	
	Balance sheet credit risk	Off-balance sheet credit risk		Total credit risk	Total credit risk	Total credit risk		
	Loans	Unutilized credit facilities	Guarantees				June 30, 2021	Dec. 31, 2020
	NIS millions							
Construction for commerce and services	**4,923**	**2,283**	**410**	**7,616**	7,224	6,435	5.4%	18.4%
Construction for industry	**391**	**67**	**26**	**484**	562	449	(13.9%)	7.8%
Housing construction	**24,212**	**19,781**	***15,712**	**59,705**	56,813	50,213	5.1%	18.9%
Yield-generating properties	**29,742**	**6,151**	**1,231**	**37,124**	34,188	32,159	8.6%	15.4%
Other	**13,743**	**9,273**	**5,345**	**28,361**	26,852	23,438	5.6%	21.0%
Total construction and real-estate sectors	**73,011**	**37,555**	**22,724**	**133,290**	125,639	112,694	6.1%	18.3%

* Includes credit risk in the amount of approximately NIS 3,114 million, in respect of which insurance was acquired from foreign insurance companies (June 30, 2021: NIS 2,460 million; December 31, 2020: NIS 3,098 million).

Activity in the construction and real-estate sector was marked by substantial growth over the last year, reflected, among other effects, in peak demand for homes and a significant increase in housing prices, as well as an increase of approximately 80% in the real-estate index on the stock exchange (in the last twelve months). Thus far, no damage is apparent in the construction and real-estate sectors as a result of the coronavirus crisis. High demand is apparent in residential real estate, which takes the form of an increase in prices of homes and in transaction volumes, resulting in increased demand for credit in this sector. At this stage, the Bank has not identified significant harm resulting from the crisis among borrowers in the commercial real estate and office real estate sectors. However, according to the estimates of the Bank, it is possible that the impacts of the crisis on demand for commerce and offices in the long term have not yet been fully elucidated. According to data of the Central Bureau of Statistics, sales of new homes increased by approximately 19% in 2020, compared with 2019, and transactions increased by 33% in the first eight months of 2021 compared with the same period in 2020. Data of the Central Bureau of Statistics for the first half of 2021 indicate a low pace of construction starts, as well as a continued decrease in the inventory of completed homes.

In addition, there are indications supporting continued growth of demand: a forecast of demographic growth at a higher pace than construction starts, a low interest-rate environment, an increase in households' income, and new wealth of high-tech employees.

According to data of the Central Bureau of Statistics, prices rose by approximately 4% in 2020, and by approximately 6.2% in the first seven months of 2021. Note that land tenders of the Israel Land Authority closed at record prices in 2021, in various regions of Israel, reflecting expectations of a further increase in prices. In view of the growth in activity in this sector, demand for corporate credit in the construction and real-estate sector expanded. Total credit to the construction and real-estate sector in the banking system grew by approximately 13% in 2020, and by approximately an additional 10% in the first half of 2021. Significant growth and expansion of companies offering non-bank financing for the real-estate industry have also been apparent over the last year. In view of the growth and rising demand in the real-estate sector, and the government policy of expanding the supply of land and homes in the coming years, the Bank has increased its activity in financing for the real-estate sectors and real-estate projects, with certain adjustments and reliefs. As a result, growth was recorded in the credit portfolio for the construction and real-estate sector, with a moderate increase in financing rates, alongside some erosion of credit spreads; however, the Bank is operating within its credit risk management limits and while examining risk-adjusted profitability.

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 133 billion as at September 30, 2021. The total risk of credit to the public in the construction and real-estate sectors increased by approximately 18% in the first nine months of 2021, and by approximately 6% in the third quarter. This increase was evident in most of the segments.

The housing construction portfolio constitutes approximately 45% of the exposure of the Bank to the construction and real-estate sector, and includes financing of land for housing and financing of residential construction projects across Israel. The Bank finances the construction of buildings for commerce, services, and industry, as well as yield-generating properties for rent in the areas of housing, offices, commerce, and industry, at the scope of approximately 34% of the total portfolio. The Bank also finances infrastructure project construction works, contracting, and special construction work. This segment constitutes approximately 21% of the portfolio.

Table D-8: Analysis of the credit quality of the Bank Group in the construction and real-estate sectors

	Balance as at September 30, 2021	Balance as at June 30, 2021	December 31, 2020	Change	
				June 30, 2021	December 31, 2020
		NIS millions			
Credit risk at credit execution rating					
Non-problematic credit risk	**128,503**	120,580	106,627	6.6%	20.5%
Credit risk not at credit execution rating					
Problematic unimpaired	**854**	642	1,768	33.0%	(51.7%)
Impaired	**1,044**	1,096	889	(4.7%)	17.4%
Non-problematic	**2,889**	3,321	3,410	(13.0%)	(15.3%)
Total credit risk not at credit execution rating	**4,787**	5,059	6,067	(5.4%)	(21.1%)
Total	**133,290**	125,639	112,694	6.1%	18.3%

Total credit risk not at credit execution rating decreased by approximately 5% in the third quarter and by approximately 21% in the first nine months of 2021. Most of the decrease was in respect of credit not at credit execution rating which is not problematic (approximately 13%) in the third quarter, and in respect of unimpaired problematic credit (approximately 52%) in the first nine months of the year. The weight of credit risk not at credit execution rating decreased from 5.4% in December 2020 to 4.0% in June 2021 and 3.6% in September 2021.

Risk quantification and measurement

The Bank routinely monitors developments in credit to the construction and real-estate sectors, and applies various measures to manage the risk. Real-estate credit risks are examined individually, based on the policies and objectives established in the risk appetite that has been set, from the level of the individual transaction to an overview of the portfolio of credit for the construction and real-estate sectors at the Bank.

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits refer, among other matters, to LTV rates, the condition of the property, the quality and value of backing collateral, the extent of problematic debt, and the term of the credit. These indicators are also monitored in comparison to the data published with regard to the banking system as a whole.

The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices. The Bank uses a statistical model to measure the probability of default and the expected loss in the portfolio. In addition, within stress scenario testing, the effect on credit for construction and real estate is also examined.

The underwriting process for new credit in this sector is performed according to a formalized credit policy for the various types of financing in the industry, such as financing of land, financing of residential construction, and financing of construction and yield generation of yield-generating properties. The policy encompasses qualitative and quantitative criteria such as rate of equity capital, maximum LTV, minimum coverage ratio, and sensitivity to price decreases. These criteria are adapted to the type of financed asset, and are used to set the boundaries of risk appetite in this sector. New credit is underwritten with the establishment of risk-adjusted profitability.

Changes and trends in portfolio quality are reflected in the Bank's calculations of the collective allowance for credit losses. In this quarter, adjustments were performed in light of the rapid increase in credit in the sector, and in respect of an increase in credit at high leverage rates or not secured by real-estate property in Israel.

On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update stated that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, would rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector would rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher. The Bank routinely manages the indebtedness of credit to the construction and real estate sector. As part of its management of compliance with the limit and the overall risk in this sector, in the third quarter of 2021 the Bank expanded the volume of the insurance acquired from foreign insurance companies for the portfolio of Sale Law guarantees, and it may take additional measures in the future to continue to manage this limit.

D.3.b. Credit risk in respect of exposures to borrowers and to groups of borrowers

Table D-9: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	September 30, 2021			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**2**	**948**	**3,579**	**4,527**
Electricity and water supply	**1**	**1,106**	**1,208**	**2,314**
Financial services	**9**	**8,519**	**10,857**	**19,376**
Construction and real estate – construction	**4**	**2,731**	**3,998**	**6,729**
Information and communications	**1**	**595**	**796**	**1,391**
Construction and real estate – civil engineering	**1**	**685**	**1,239**	**1,924**
Water, sewage services, garbage and waste treatment, and purification services	**1**	**1,147**	**265**	**1,412**
Hotels, hospitality, and food services	**1**	**161**	**1,304**	**1,465**
Total	**20**	**15,892**	**23,246**	**39,138**

	December 31, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	2	1,078	3,496	4,574
Electricity and water supply	1	748	1,029	1,777
Financial services	8	9,389	8,113	17,502
Construction and real estate – construction	2	902	2,058	2,960
Motor-vehicle trading	1	729	489	1,218
Information and communications	1	919	470	1,389
Construction and real estate – civil engineering	1	337	1,588	1,925
Total	16	14,102	17,243	31,345

Credit risk in respect of exposure to borrower groups

As at September 30, 2021, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

D.3.c. Risks in the housing loan portfolio

Table D-10: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate			
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Recorded debt balance in NIS millions	Rate of change during the period
September 30, 2021	**25,477**	**23.2%**	**43,246**	**39.3%**	**13,746**	**12.5%**	**27,358**	**24.9%**	**162**	**0.1%**	**109,989**	**10.5%**
December 31, 2020	21,480	21.6%	38,623	38.8%	13,619	13.7%	25,573	25.7%	200	0.2%	99,495	10.8%
December 31, 2019	17,301	19.3%	34,565	38.5%	13,811	15.4%	23,834	26.5%	266	0.3%	89,777	10.2%

For details regarding the directives of the Banking Supervision Department amending the limit on housing loans at the Prime rate, see Note 16 to the Condensed Financial Statements.

Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macroeconomic indicators in general, and in the business environment of the industry in particular. Certain events have been defined as requiring a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in a divisional risk forum headed by the Head of Retail Banking, and on a quarterly basis, as part of the report on developments in the credit portfolio and in credit risk, to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place (life insurance and building insurance).

Table D-11: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed

	For the three months ended				
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Characteristics					
Financing rate over 60%	**40.0%**	41.8%	41.5%	41.3%	43.3%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.1%**	0.1%	0.1%	0.3%	0.0%
Percentage with floating rates	**60.4%**	59.8%	58.6%	59.3%	58.4%
Percentage of all-purpose loans	**4.5%**	3.8%	5.2%	5.3%	5.1%
Loans for investment purposes as a percentage of total purchases of homes	**11.1%**	9.3%	10.6%	9.6%	6.9%
Principal planned for repayment after age 67 (excluding investments)	**8.1%**	8.1%	8.0%	8.1%	8.1%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.6**	24.5	24.5	24.6	24.6

The upward trend in balances of housing loans continues.

The following portfolio quality indicators increased (worsened):

- Loans for investment purposes as a percentage of total purchases of homes.
- The percentage of execution of all-purpose loans.
- The percentage of execution of floating-rate loans.

The following indicators were stable:

- Payment to income ratios greater than 40%.
- The average term to maturity of loans for purchases of homes.
- The percentage of principal scheduled for repayment after the age of 67 (slight increase).

The indicator of the percentage of credit granted with a financing rate greater than 60% decreased.

Despite the increase in the percentage of new all-purpose loans and in loans for investment purposes, according to the estimates of the Bank there is no material change in credit execution quality, given the decrease in loans granted with financing rates greater than 60% and the steady near-zero rate of loans granted with payment to income ratios greater than 40%.

D.3.d. Credit to private individuals (excluding housing)

Table D-12: Balance of credit to private individuals in Israel

	Balance as at		Change	
	September 30, 2021	December 31, 2020		
	NIS millions			%
Balance sheet				
Negative balance in current accounts	**2,624**	2,402	222	9.24%
Loans[(1)]	**23,520**	23,873	(353)	(1.48%)
Of which: bullet and balloon loans	**44**	62	(18)	(29.03%)
Credit for purchases of motor vehicles[(2)]	**3,282**	3,139	143	4.56%
Debtors in respect of credit-card activity	**4,503**	4,470	33	0.74%
Total balance sheet credit risk	**33,929**	33,884	45	0.13%
Off-balance sheet				
Off-balance sheet credit risk	**18,738**	21,229	(2,491)	(11.73%)
Total credit risk	**52,667**	55,113	(2,446)	(4.44%)

(1) Excluding loans for purchases of motor vehicles.
(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

Table D-13: Information regarding problematic debts in respect of private individuals in Israel

	Balance as at		Change	Percentage of total balance sheet credit risk As at	
	September 30, 2021	December 31, 2020		**September 30, 2021**	December 31, 2020
	NIS millions				
Problematic credit risk	**733**	808	(9.3%)	**2.2%**	2.4%
Of which: impaired credit risk	**657**	740	(11.2%)	**1.9%**	2.2%
Debts in arrears of more than 90 days	**43**	45	(4.4%)	**0.1%**	0.1%
Net charge-offs (collections) for the period	**(16)**	209	[(1)](110.2%)	**[(1)](0.1%)**	0.6%
Allowance for credit losses	**622**	1,023	(39.2%)	**1.8%**	3.0%

(1) Calculated on an annualized basis.

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased in the first nine months of 2021, particularly in the first quarter, by approximately 0.8%. In the third quarter, credit grew by 1.0%. Total balance sheet credit risk increased by approximately 0.1% in the first nine months of 2021. Off-balance sheet credit risk decreased, mainly as a result of a decrease in unutilized credit facilities in credit cards under the responsibility of the Bank, due to the preparations of the Bank for implementation of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel. For further details, see Note 16 to the Condensed Financial Statements.

The balance of debts in arrears of more than ninety days continued to trend downward in the first nine months of 2021, falling by 4.4%. The problematic credit risk balance decreased by 9.3%, and also decreased as a percentage of total balance sheet credit risk. Income in the amount of approximately NIS 16 million was recorded in respect of net charge-offs for the period, compared with an expense in the amount of approximately NIS 209 million in 2020. In addition, the allowance for credit losses decreased by 39.2%. The improvement in indicators in the first nine months of 2021 was largely influenced by the economic recovery and government support measures, as well as by improvements in parameters of many borrowers.

For additional information regarding the risk of credit to private individuals, see the section "Review of risks" in the Report of the Board of Directors and Board of Management as at September 30, 2021.

D.3.e. Leveraged financing

Leveraged financing is managed and defined at the Bank in accordance with the directives of the Bank of Israel, and in particular, with Proper Conduct of Banking Business Directive 311 (Credit Risk Management), Proper Conduct of Banking Business Directive 323 (Limits on Financing of Equity Transactions), and Proper Conduct of Banking Business Directive 327 (Management of Leveraged Loans).

Among other matters, leveraged financing includes equity transactions (transactions for the acquisition of an equity interest in another corporation, acquisition of all or a significant part of the assets of another corporation, buybacks of issued shareholders' equity, or capital distribution – payment of a dividend, or another transaction aimed at increasing value for shareholders, as defined in Proper Conduct of Banking Business Directive 323), and financing for borrowers in various segments of specified economic sectors characterized by exceptional levels of certain parameters, relative to the accepted norms in the economic sectors, such as a high financing rate that deviates from the policy for the sector, and financing of mezzanine debt.

The Bank provides leveraged financing to its customers from time to time. An internal limit applies to leveraged financing as a percentage of the Tier 1 capital of the Bank. Developments in leveraged financing and compliance with the established limit are reported each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

Data regarding credit risks in respect of leveraged financing follow. The disclosure focuses on exposures of leveraged borrowers/transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table D-14: Exposures of the Bank to leveraged financing, by economic sector of the borrower

	September 30, 2021			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**1**	**793**	**244**	**1,037**
Construction and real estate – real-estate activities	**1**	**342**	**59**	**401**
Hotels, hospitality, and food services	**1**	**124**	**116**	**240**
Mining and quarrying	**-**	**-**	**-**	**-**
Commerce	**1**	**250**	**-**	**250**
Financial services and insurance services	**1**	**637**	**-**	**637**
Industry	**1**	**422**	**-**	**422**
Other business services	**-**	**-**	**-**	**-**
Total	**6**	**2,568**	**419**	**2,987**

	December 31, 2020			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	3	586	954	1,540
Construction and real estate – real-estate activities	2	608	-	608
Mining and quarrying*	2	240	-	240
Industry	1	425	-	425
Other business services	1	87	171	258
Total	9	1,946	1,125	3,071

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 747 million.

D.4. Credit risk mitigation: standardized approach disclosures

Table D-15: Credit risk mitigation

	September 30, 2021								
	Unsecured	Secured							
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	**335,213**	**18,261**	**9,998**	**13,962**	**6,011**	**4,299**	**3,987**	**-**	**-**
2 Bonds	**66,740**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3 Total	**401,953**	**18,261**	**9,998**	**13,962**	**6,011**	**4,299**	**3,987**	**-**	**-**
4 Of which: impaired or in arrears of 90 days or more	**2,358**	**23**	**4**	**23**	**4**	**-**	**-**	**-**	**-**

	September 30, 2020*								
	Unsecured	Secured							
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	297,241	15,079	6,760	12,547	4,632	2,532	2,128	-	-
2 Bonds	65,785	-	-	-	-	-	-	-	-
3 Total	363,026	15,079	6,760	12,547	4,632	2,532	2,128	-	-
4 Of which: impaired or in arrears of 90 days or more	3,347	12	4	12	4	-	-	-	-

	December 31, 2020*								
	Unsecured	Secured							
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	297,840	17,601	7,851	13,717	5,018	3,884	2,833	-	-
2 Bonds	69,500	-	-	-	-	-	-	-	-
3 Total	367,340	17,601	7,851	13,717	5,018	3,884	2,833	-	-
4 Of which: impaired or in arrears of 90 days or more	3,338	19	7	19	7	-	-	-	-

* Restated.

Table D-16: Standardized approach – exposures by asset type and risk weight(1)(2)

		September 30, 2021									
		0%	20%	35%	50%	60%	75%	100%	150%	Other(3)	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	**226,037**	**251**	**-**	**-**	**-**	**-**	**230**	**31**	**-**	**226,549**
2	Public-sector entities (PSE) other than the central government	**1,754**	**4,903**	**-**	**47**	**-**	**-**	**-**	**-**	**-**	**6,704**
3	Banks (including multilateral development banks (MDB))	**-**	**14,092**	**-**	**36**	**-**	**-**	**42**	**-**	**-**	**14,170**
5	Corporations	**-**	**4,195**	**-**	**3,108**	**-**	**-**	**120,637**	**320**	**-**	**128,260**
6	Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**50,044**	**-**	**-**	**-**	**50,044**
7	Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**9,634**	**-**	**-**	**-**	**9,634**
8	Secured by a residential property	**-**	**-**	**31,197**	**32,421**	**23,902**	**18,717**	**3,861**	**-**	**-**	**110,098**
9	Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**89,330**	**-**	**-**	**89,330**
10	Loans in arrears	**-**	**-**	**-**	**-**	**-**	**-**	**1,045**	**1,047**	**-**	**2,092**
11	Other assets*	**3,047**	**-**	**-**	**-**	**-**	**-**	**11,219**	**1,061**	**1,545**	**16,872**
11A	* Of which: in respect of shares	**-**	**-**	**-**	**-**	**-**	**-**	**3,004**	**639**	**-**	**3,643**
12	Total	**230,838**	**23,441**	**31,197**	**35,612**	**23,902**	**78,395**	**226,364**	**2,459**	**1,545**	**653,753**

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.
(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.
(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300% beginning January 1, 2020, and at a rate of 600% beginning January 1, 2021. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-16: Standardized approach – exposures by asset type and risk weight[(1)(2)] (continued)

		September 30, 2020									
		0%	20%	35%	50%	60%	75%	100%	150%	Other[(3)]	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	160,471	7,002	-	20	-	-	254	64	-	167,811
2	Public-sector entities (PSE) other than the central government	1,879	348	-	3,510	-	-	-	-	-	5,737
3	Banks (including multilateral development banks (MDB))	-	14,715	-	3,436	-	-	52	1	-	18,204
4	Securities companies	-	1	-	-	-	-	-	-	-	1
5	Corporations	-	5,614	-	2,978	-	-	103,183	82	-	111,857
6	Retail exposures to individuals	-	-	-	-	-	50,199	-	-	-	50,199
7	Loans to small businesses	-	-	-	-	-	10,313	-	-	-	10,313
8	Secured by a residential property	-	-	29,213	27,955	15,666	20,665	3,687	-	-	97,186
9	Secured by commercial real estate	-	-	-	-	-	-	67,617	-	-	67,617
10	Loans in arrears	-	-	-	-	-	-	1,255	1,760	-	3,015
11	Other assets*	3,065	-	-	-	-	-	8,599	948	859	13,471
11A	* Of which: in respect of shares	-	-	-	-	-	-	1,392	656	-	2,048
12	Total	165,415	27,680	29,213	37,899	15,666	81,177	184,647	2,855	859	545,411

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.
(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.
(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300% beginning January 1, 2020, and at a rate of 600% beginning January 1, 2021. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-16: Standardized approach – exposures by asset type and risk weight(1)(2) (continued)

		December 31, 2020									
		0%	20%	35%	50%	60%	75%	100%	150%	Other(3)	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	180,252	8,164	-	-	-	-	340	46	-	188,802
2	Public-sector entities (PSE) other than the central government	1,874	285	-	3,580	-	-	-	-	-	5,739
3	Banks (including multilateral development banks (MDB))	-	10,080	-	3,220	-	-	44	-	-	13,344
5	Corporations	-	5,016	-	2,490	-	-	107,616	77	-	115,199
6	Retail exposures to individuals	-	-	-	-	-	50,116	-	-	-	50,116
7	Loans to small businesses	-	-	-	-	-	9,862	-	-	-	9,862
8	Secured by a residential property	-	-	29,420	28,812	17,358	20,286	3,770	-	-	99,646
9	Secured by commercial real estate	-	-	-	-	-	-	71,166	-	-	71,166
10	Loans in arrears	-	-	-	-	-	-	1,179	1,874	-	3,053
11	Other assets*	3,057	-	-	-	-	-	8,962	857	763	13,639
11A	* Of which: in respect of shares	-	-	-	-	-	-	1,814	571	-	2,385
12	Total	185,183	23,545	29,420	38,102	17,358	80,264	193,077	2,854	763	570,566

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.
(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.
(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300% beginning January 1, 2020, and at a rate of 600% beginning January 1, 2021. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

E. Counterparty credit risks

Counterparty risk is defined at the Bank, according to the definition in Proper Conduct of Banking Business Directive 203, as the credit risk arising from transactions in derivative financial instruments. The risk is that the counterparty to the transaction will default before the final settlement of cash flows in the transaction. The market value of the transaction may be positive or negative for any of the parties to the transaction; the market value is not certain, and may change over time and according to movements in the underlying market-risk factors.

For details regarding the effect of the spread of the coronavirus, see Section B.5 above and the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.

Table E-1: Analysis of exposure to counterparty credit risk based on the supervisory approach

		September 30, 2021				September 30, 2020			
		Replacement cost	Potential future exposure	EAD after CRM	RWA	Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions							
1	Present exposure method	**3,786**	**10,028**	**10,958**	**6,925**	2,795	6,587	8,029	5,103
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	**-**	**-**	**-**	**-**	-	-	-	-
6	Total	**3,786**	**10,028**	**10,958**	**6,925**	2,795	6,587	8,029	5,103

		December 31, 2020			
		Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions			
1	Present exposure method	5,143	6,599	8,517	5,114
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	-
6	Total	5,143	6,599	8,517	5,114

Table E-2: Capital allocation in respect of credit value adjustment

		September 30, 2021		September 30, 2020		December 31, 2020	
		EAD after CRM	RWA	EAD after CRM	RWA	EAD after CRM	RWA
		NIS millions					
3	Total portfolios in respect of which CVA is calculated according to the standardized approach	**10,666**	**2,703**	7,789	2,510	8,306	2,749

For more extensive information regarding counterparty risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

F. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a particular portfolio, due to changes in prices, rates, spreads, and other market parameters. This includes:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies;
- **Currency risk –** The risk of loss as a result of changes in exchange rates;
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations;
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices;
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate;
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market;
- **Spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

The main market risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.
For more extensive information regarding market, interest-rate, and investment risks and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.
For details regarding the effect of the spread of the coronavirus, see Section B.5 above.

F.1. Market risk in the trading book

Market risks in the trading book arise from the Bank's activity as a market maker, trader, and manager of positions on its own behalf. The Bank's risk level is measured and controlled according to procedures that include, among other things, limits on the risk estimate in terms of VaR and on the sensitivity of economic value to changes in the primary risk factors. A risk estimate using the VaR (value at risk) method assesses the maximum potential loss to a corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors (see the risk estimate methodology in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020).

Table F-1: Risk estimates of trading activity (VaR)

	September 30, 2021	**Average up to September 30, 2021**	December 31, 2020	Average in 2020
	NIS millions			
Total trading in dealing rooms	**17**	**24**	24	35

Table F-2: Sensitivity to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index

	September 30, 2021		December 31, 2020	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	**(112)**	**104**	(38)	45
EUR	**1**	**(1)**	37	(8)
	3% increase	3% decrease	3% increase	3% decrease
CPI	**481**	**(499)**	273	(388)

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

Table F-3: Market risk based on the standardized approach

The Bank is required to allocate capital in respect of market risk assets, on the basis of a standardized model defined by the Bank of Israel. Regulatory capital adequacy is calculated for interest-rate and share risks, as defined above, in the trading book only, and for currency risks in the banking book and in the trading book.

		September 30, 2021	September 30, 2020	December 31, 2020
		Risk-adjusted assets in NIS millions		
	Direct products			
1	Interest-rate risk (general and specific)	**2,739**	2,801	2,477
2	Share position risk (general and specific)	**-**	4	-
3	Exchange-rate risk	**363**	113	688
4	Commodity risk	**-**	-	-
	Options			
5	Simplified approach	**-**	-	-
6	Delta-plus approach	**503**	623	282
7	Scenario approach	**-**	-	-
8	Securitization	**-**	-	-
9	Total	**3,605**	3,541	3,447

F.2. Interest-rate risk in the banking book

Interest-rate risk in the banking book refers to the potential effect of changes in the various interest-rate curves on the economic value of the Bank (i.e. change in the present value of assets and liabilities) and/or on net interest income (accounting income sensitivity). This risk emerges during routine and proactive banking activity, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other banking activities, including interest-rate exposure arising from the management of the Bank's investment portfolio. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest-rate bases, interest-rate renewal dates, and more. Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group) to scenarios of change in the shekel, CPI-linked, and foreign-currency interest-rate curves.

The economic value sensitivity table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by interest-rate curves that do not take into account the credit risk spread of the counterparty, with the use of internal models for some products. This differs from the calculation in fair-value tables, where the expected cash flows are discounted by a rate that also reflects the risk level inherent in the financial instrument. Pursuant to the Public Reporting Directives of the Bank of Israel, the Bank applies hypothetical shock and stress scenarios of changes in interest rates to the adjusted net fair value of the financial instruments used by the Bank. The stress scenarios are calculated according to formulas defined in the BOI reporting requirements. The required scenarios are steepening (a decrease in the short-term interest rate and an increase in the long-term interest rate), flattening (an increase in the short-term interest rate and a decrease in the long-term interest rate), an increase in the short-term interest rate, and a decrease in the short-term interest rate. The scenarios were applied uniformly to all of the currencies included in the report to the public.

Table F-4: Adjusted* net fair value of the financial instruments of the Bank and its consolidated companies

	September 30, 2021					December 31, 2020				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total
	NIS millions									
Financial assets**	**441,739**	**58,774**	**70,370**	**11,550**	**582,433**	392,623	51,205	59,955	10,320	514,103
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	**366,226**	**19,272**	**269,230**	**63,446**	**718,174**	368,180	16,375	238,938	63,760	687,253
Financial liabilities**	**381,060**	**34,601**	**113,206**	**14,664**	**543,531**	330,179	35,016	97,010	14,598	476,803
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	**409,092**	**22,096**	**227,483**	**60,314**	**718,985**	407,507	19,788	202,199	59,710	689,204
Net fair value of financial instruments	**17,813**	**21,349**	**(1,089)**	**18**	**38,091**	23,117	12,776	(316)	(228)	35,349
Effect of employee benefit liabilities	**-**	**(4,896)**	**-**	**-**	**(4,896)**	-	(4,820)	-	-	(4,820)
Effect of spreading over periods of on-demand deposits	**3,517**	**-**	**1,020**	**101**	**4,638**	1,795	-	703	116	2,614
Adjusted net fair value*	**21,330**	**16,453**	**(69)**	**119**	**37,833**	24,912	7,956	387	(112)	33,143
Of which: banking book	**19,669**	**16,588**	**(636)**	**73**	**35,694**	24,571	7,892	104	(102)	32,465

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 15 to the Condensed Financial Statements.

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

Table F-5: Effect of scenarios of changes in interest rates on the adjusted* net fair value of the Bank and its consolidated companies

	September 30, 2021					December 31, 2020				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total
	NIS millions									
Parallel changes										
1% parallel increase	**411**	**(532)**	**(33)**	**18**	**(136)**	(308)	(278)	(152)	35	(703)
Of which: banking book	**413**	**(545)**	**(27)**	**22**	**(137)**	(355)	(278)	(124)	38	(719)
1% parallel decrease	**(390)**	**549**	**27**	**(6)**	**180**	342	287	148	(40)	737
Of which: banking book	**(394)**	**562**	**20**	**(6)**	**182**	389	287	124	(44)	756
Non-parallel changes										
Steepening(1)	**(253)**	**(41)**	**(116)**	**43**	**(367)**	(408)	(46)	(157)	25	(586)
Of which: banking book	**(231)**	**(45)**	**(132)**	**43**	**(365)**	(380)	(49)	(195)	26	(598)
Flattening(2)	**417**	**(55)**	**88**	**(30)**	**420**	393	-	166	(16)	543
Of which: banking book	**396**	**(54)**	**106**	**(30)**	**418**	355	3	223	(17)	564
Increase in short-term interest rate	**524**	**(275)**	**19**	**(23)**	**245**	230	(121)	25	4	138
Of which: banking book	**507**	**(280)**	**37**	**(22)**	**242**	176	(118)	104	3	165
Decrease in short-term interest rate	**(520)**	**279**	**(27)**	**36**	**(232)**	(274)	116	(18)	-	(176)
Of which: banking book	**(503)**	**284**	**(46)**	**35**	**(230)**	(220)	113	(95)	-	(202)

* Net fair value of financial instruments, excluding non-monetary items, and after the effect of employee benefit liabilities and spreading over periods of on-demand deposits.
(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.
(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

Table F-6: Sensitivity of the economic value of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

	September 30, 2021			December 31, 2020		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS	Foreign currency
	NIS millions					
Parallel changes						
1% parallel increase	**(27)**	**(878)**	**(19)**	(650)	(638)	(112)
1% parallel decrease	**121**	**972**	**28**	779	729	137

The decrease in the sensitivity of economic value in the unlinked segment mainly resulted from changes in the current-account balance layout (in the first and third quarters), partly offset by an increase in sensitivity due to heightened credit and mortgage granting activity. The increase in the sensitivity of economic value in the linked segment mainly resulted from mortgage granting and shortening of resources. The change in the sensitivity of economic value in the foreign-currency segment mainly resulted from activity in government bonds. The difference between economic value sensitivity and fair value sensitivity as at September 30, 2021, mainly stems from the use of different discount curves, as described above, the effect of which is estimated at approximately NIS 0.27 billion in the unlinked segment and approximately NIS 0.29 billion in the CPI-linked segment.

Table F-7: Effect of scenarios of changes in interest rates on interest income

	September 30, 2021			December 31, 2020		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**1,153**	**124**	**1,277**	1,035	176	1,211
Of which: banking book	**1,153**	**123**	**1,276**	1,035	158	1,193
1% parallel decrease	**(656)**	**(313)**	**(969)**	(412)	(368)	(780)
Of which: banking book	**(656)**	**(313)**	**(969)**	(412)	(349)	(761)

Income sensitivity in the table above was calculated by changing interest-rate curves, using assumptions regarding changes in deposit spreads; assumptions of transfer of funds from current accounts to deposits in the case of an increase in the interest rate, versus stability of balances in the case of a decrease in the interest rate; and the assumption of interest-rate floors, such that the various interest-rate curves fall to zero. In the foreign-currency segment, the interest-rate curve falls to the lower of zero or the existing negative interest rate. In some of the scenarios, the theoretical loss in the event of a negative interest rate (below the floor) may be higher. The sensitivity of the trading book was calculated using the MTM approach. The increase in income sensitivity resulted from the continued growth in positive current-account balances.

F.3. Share and credit spread risk – investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately). According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

For details regarding investments of the Bank, see Note 5 to the Condensed Financial Statements.

G. Liquidity risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the business plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk. In light of the financing sources of the Bank, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Liquidity risk is managed based on a global view of the Bank's activity in Israel, at its overseas branches, and at subsidiaries with significant liquidity risk for the Group. Routine liquidity risk management is under the responsibility of the Asset and Liability Management Area, and is conducted in accordance with a Group-level policy, with the aim of maintaining the ability of the Bank to meet all of its present liabilities without damage to its routine operations and existing capabilities, and without incurring exceptional losses. Reports are submitted to Board of Management committees on a monthly basis, and to Board of Directors committees on a quarterly basis. The Bank continually monitors its stable financing ratio, examines the effects of the business plan on its liquidity profile, and ensures that it continues to comply with all limits in the course of the expected changes on the business level. The Market and Liquidity Risk Management Department in the Risk Management Division routinely monitors liquidity using internal and environmental parameters, independently reports the risk level to the committees of the Board of Management and the Board of Directors, and challenges the parameters in the various models related to liquidity.

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period

	For the quarter ended September 30, 2021	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**205,872**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**241,977**	**19,638**
Stable deposits	**80,620**	**4,031**
Less stable deposits	**128,974**	**14,635**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**32,383**	**972**
Unsecured wholesale financing, of which:	**198,722**	**133,194**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**2,693**	**673**
Non-operational deposits (all counterparties)	**195,577**	**132,069**
Unsecured debts	**452**	**452**
Secured wholesale financing	**60**	**-**
Additional liquidity requirements, of which:	**107,499**	**18,280**
Outflows related to derivative exposure and other collateral requirements	**9,599**	**7,661**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**97,900**	**10,619**
Other contractual funding obligations	**4,731**	**4,731**
Other contingent funding obligations	**62,190**	**1,890**
Total cash outflows		**177,733**
Cash inflows		
Secured lending (e.g. reverse repos)	**2,134**	**1,066**
Inflows from fully performing exposures	**19,527**	**10,182**
Other cash inflows	**9,067**	**4,475**
Total cash inflows		**15,723**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**205,872**
Total net cash outflows	**162,010**
Liquidity coverage ratio (%)	**127%**

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 55.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

	For the quarter ended September 30, 2020	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		153,840
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	230,118	18,136
Stable deposits	74,303	3,715
Less stable deposits	117,747	13,279
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	38,068	1,142
Unsecured wholesale financing, of which:	141,246	91,652
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,173	543
Non-operational deposits (all counterparties)	138,464	90,500
Unsecured debts	609	609
Secured wholesale financing	6	-
Additional liquidity requirements, of which:	102,608	22,422
Outflows related to derivative exposure and other collateral requirements	12,568	11,898
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	90,040	10,524
Other contractual funding obligations	2,292	2,292
Other contingent funding obligations	52,157	1,721
Total cash outflows		136,223
Cash inflows		
Secured lending (e.g. reverse repos)	347	345
Inflows from fully performing exposures	19,528	10,765
Other cash inflows	13,448	8,640
Total cash inflows		19,750

	Total adjusted value****
Total high-quality liquid assets (HQLA)	153,840
Total net cash outflows	116,473
Liquidity coverage ratio (%)	132%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 61.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

	For the quarter ended December 31, 2020	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		167,204
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	235,453	18,717
Stable deposits	77,342	3,867
Less stable deposits	122,317	13,776
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	35,794	1,074
Unsecured wholesale financing, of which:	148,272	95,268
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,475	619
Non-operational deposits (all counterparties)	145,344	94,196
Unsecured debts	453	453
Secured wholesale financing	10	-
Additional liquidity requirements, of which:	109,138	26,888
Outflows related to derivative exposure and other collateral requirements	16,917	16,228
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	92,221	10,660
Other contractual funding obligations	2,294	2,294
Other contingent funding obligations	52,780	1,728
Total cash outflows		144,895
Cash inflows		
Secured lending (e.g. reverse repos)	241	239
Inflows from fully performing exposures	21,456	12,154
Other cash inflows	17,417	12,814
Total cash inflows		25,207

	Total adjusted value***
Total high-quality liquid assets (HQLA)	167,204
Total net cash outflows	119,688
Liquidity coverage ratio (%)	140%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 64.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

The average ratio during the third quarter of 2021 (the average of the daily observations) is 127%, consolidated, and 126% for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the third quarter of 2021 ratio decreased by approximately 13% in comparison to the preceding quarter, due to a significant increase in credit, along with an increase in deposits from wholesale customers (corporate and financial), and due to the implementation of the directive of the Antitrust Authority to apply daily clearing in credit cards (the Bank transitioned to daily payment of operators, versus fixed dates prior to the implementation of the directive). The ratio is at a similar level to ratios prior to the crisis of the spread of the coronavirus. There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

The liquid assets of the Bank mainly consist of Israeli government bonds in NIS and in foreign currency, US government bonds in foreign currency, and deposits with central banks (the Bank of Israel and the Federal Reserve). Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself, particularly banking subsidiaries overseas. Some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company), according to need, and the Bank does not rely on these assets. The Bank manages the liquidity coverage ratio, and accordingly its liquid assets, with a separation of NIS and foreign currencies. For details of liquid assets by level, see the table below. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the stand-alone banking corporation and consolidated.

The main source of funding of the Bank is deposits from retail customers and small businesses in Israel, which generate low liquidity risk relative to other resources. In addition, the Bank obtains financing through issues, deposits from corporate and financial companies, and more. Funding in foreign currency includes deposits from private customers and from corporate clients in Israel, foreign residents, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and additional resources. Deposits from corporate and financial entities with a maturity date of up to one month are subject to high outflow coefficients, pursuant to the directive, and therefore have a relatively large contribution to cash outflow. The Bank monitors the concentration of funding sources, in various breakdowns, in both NIS and foreign currency, and complies with the internal limits in this area. The Bank does not rely on funding from the capital market as a major financing source.

Derivatives create a large inflow and a large outflow, and lead to redirection of liquid assets and net cash outflow between NIS and foreign currency, but their net contribution in all currencies is low. In the calculation of liquid assets, the Bank does not include collateral which it is required to deposit against derivatives activity; volatility in the volume of this deposit is taken into consideration, as required in the directive.

The Bank is in compliance with all regulatory and internal liquidity limits. These include, among others, short-term models, such as the LCR and an internal thirty-day model; medium-term models, such as the NSFR-based internal model (financing sources stable for over a year divided by financing needs stable for over a year, as defined at the Bank, in the vein of the recommendations of the Basel Committee); and limits that refer to the long term. In accordance with Proper Conduct of Banking Business Directive 221, as at September 30, 2021, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable securities of sovereigns and central banks, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 205,872 million, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company – the Bank), according to need, and the Bank does not rely on these assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios.

Table G-2: Details of liquid assets, by level, as required in the Basel directives

	Balance as at September 30, 2021	**Average in the quarter ended September 30, 2021**
Level 1 assets	**203,350**	**203,614**
Level 2A assets	**1,883**	**2,038**
Level 2B assets	**216**	**220**
Total HQLA	**205,449**	**205,872**

	Balance as at September 30, 2020	Average in the quarter ended September 30, 2020
Level 1 assets	156,266	150,634
Level 2A assets	2,671	2,676
Level 2B assets	531	530
Total HQLA	159,468	153,840

	Balance as at December 31, 2020	Average in the quarter ended December 31, 2020
Level 1 assets	173,530	164,004
Level 2A assets	2,618	2,666
Level 2B assets	525	534
Total HQLA	176,673	167,204

H. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units and/or procedures and systems in areas related to banking activity, including the Information Systems Security and Cyber Defense units, business continuity management, security, the Chief Compliance Officer, management of human resources, process control, and more.

The Bank is continuing to manage the crisis of the spread of the coronavirus, and has applied a series of processes and measures to monitor and mitigate the relevant risks, while adapting the routine operations of the Bank to the (rising or falling) case levels and adjusting the guidelines for its work to the requirements of the authorities. At the date of the report, routine operational activity has resumed, while adhering to the guidelines and implementing emergency regulations.

For additional information regarding operational risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

I. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.

Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the legislation in Israel for implementation of the FATCA and CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.

Compliance risk also encompasses risk related to the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services.

In January 2018, the Bank received signed letters of immunity and indemnity from the Attorney General and the Ministry of Finance. The letter of immunity protects the Bank, its officers, and its employees from indictment in Israel for certain offenses related to money laundering and the prevention of terrorism financing in relation to services granted, or to be granted, by the Bank to Palestinian banks from March 28, 2016, to May 31, 2019 (the "Immunity and Indemnity Period"). Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks in which she gave notice that no enforcement measures would be taken in all matters related to actions of the Bank in connection with the provision of correspondent services to which the letter of immunity applies.

In the letter of indemnity, the State of Israel made a commitment to indemnify the Bank, in an amount up to NIS 1.5 billion, for expenses (liability according to a verdict and legal expenses) borne by the Bank, within civil proceedings or criminal proceedings that do not end in a conviction, prosecuted against the Bank or an officer or employee thereof in connection with the provision of the correspondent services during the Immunity and Indemnity Period. The immunity and indemnity commitments granted to the Bank, as noted, are subject to reservations stated therein and to conditions that the Bank must fulfill.

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019. Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). In July 2021, the Bank was provided with an updated letter of indemnity valid until July 15, 2022, with an option for the State to extend this period until December 31, 2022. The letter of immunity was also extended until July 15, 2022.

For additional information regarding compliance risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

J. Legal risk

Legal risk includes, among other matters, legal claims, rulings, inability to enforce contracts, and exposure to fines, penalties, or enforcement measures as a result of supervisory actions and private settlements that may disrupt or adversely affect the activity of the Bank Group. The Group is assisted by internal and external legal counsel in order to contend with this risk.

For additional information regarding legal risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020; Note 25 to the Annual Financial Statements for 2020; and Note 10 to the Condensed Financial Statements.

K. Reputational risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. This risk, which usually accompanies other activities and other risks, may materialize in various ways, such as customer departures, new regulation, and more.

For additional information regarding reputational risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

L. Regulatory risk

Regulatory risk is the risk of damage to the Bank's ability to fulfill its obligations and to realize and maximize its business objectives as a result of non-optimal implementation of regulatory requirements, or as a result of legislative processes and/or amendments of directives of various regulatory agencies that cause changes in the business environment of the Group. Such changes may occasionally influence the Group's ability to offer and deliver certain banking services, and/or may obligate the Group to prepare for complex and prolonged implementation and to carry out resource-intensive technological and other investments, at considerable cost.

For additional information regarding regulatory and legislative risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements.

M. Economic risk

Risk factors in the economic environment are identified by the Economics Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees.

For details regarding the Bank's ways of coping with the crisis of the spread of the coronavirus, see Section B.5 above.

For details regarding conditions in the Israeli and global economy, see the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.

For additional information regarding economic risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020, and the Annual Financial Statements for 2020.

N. Strategic risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is also a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation. As such, this risk constitutes forward-looking information.

Bank Hapoalim continues to monitor the effects of the spread of the coronavirus on the global and local economy, and on the strategic plans of the Bank.

For additional information regarding strategic risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

O. Environmental risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage. The definition of environmental risk has expanded in recent years, so that today it is also commonly viewed as a global risk arising from the potentially harmful effects of environmental changes on people, ecological systems, and economic and financial activities. Environmental risks include climate change; harm to biodiversity; and air, water, and land pollution. In this context, environmental risks are generally divided into two principal types of risk factors: physical risks, which manifest as a direct effect of climate change, such as fires, floods, earthquakes, etc.; and transition risks, which arise from the promotion of processes and implementation of adjustments pertaining to the environment, such as renewable energy, carbon reduction, green technologies and materials, etc.

Environmental risks, including climate-change risks, may have financial and non-financial impacts on banking corporations, including the Bank. These risks may also be included in the Bank's exposure to other risks, such as credit risk, market risk, operational risk, compliance risk, legal risk, reputational risk, and liquidity risk.

In December 2020, the Supervisor of Banks sent a letter to the banking corporations on the subject of the management of environmental risks, with an emphasis on climate risk. This was part of a process being conducted at the Banking Supervision Department to formulate and specify a framework for the management of environmental and climate risks, as defined above, in the Israeli banking system, with the aim of adapting international regulation and expectations to the local environment. The Bank addresses environmental risks in the course of its routine risk-management processes, while also preparing to expand the treatment of these risks, as detailed in the letter, according to their relevance and materiality in the context of the business activity of the Bank.

Further to the letter, in February 2021 the Banking Supervision Department sent an additional letter to banking corporations, in which they were asked to complete a self-assessment questionnaire regarding various aspects of an environmental and climate risk management framework. The findings of the questionnaire are expected to serve as the basis for talks between the Banking Supervision Department and the banks on this subject.

For additional information regarding environmental risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

P. Model risk

Model risk is the risk of adverse consequences, which may take the form of monetary loss or non-financial impacts (incorrect business and/or strategic decisions, damage to the firm's reputation, etc.), resulting from decisions based on incorrect or misused model outputs. The sources of this risk are possible deficiencies in input data, development methodologies, technological implementation, and business use.

Model risk at the Group is managed by a dedicated independent unit – the Model Risk Management Unit. The unit constitutes the second line of defense in respect of this risk, in cooperation with independent validation activities in other Bank units.

Model risk management encompasses independent validation, monitoring of risk-mitigation activities conducted by the various units, definition of risk appetite, and assessment of aggregate risk. Pursuant to the instructions of the Bank of Israel of 2011, all models in use at the Bank require independent validation. Beginning in the first quarter of 2021, model risk is reported within the risk factor severity table of the Bank. In light of the uncertainty caused by the crisis of the spread of the coronavirus and the potential risk arising from the use of models at this time, model risk monitoring has been increased with respect to the relevant models.