Q3
2022

Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at September 30, 2022

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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, 2022.

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.

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. Data referring to comparative figures regarding the allowance for credit losses and debt classifications were not restated, unless otherwise noted. For further details, see Note 1C to the Condensed Financial Statements.

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 Condensed Financial Statements as at September 30, 2022.

Sincerely yours,

Ruben Krupik	**Dov Kotler**	**Merav Ben Shushan Cohen**
Chairman of the	President and	Senior Deputy Managing Director,
Board of Directors	Chief Executive Officer	Chief Risk Officer

Tel Aviv, November 22, 2022

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, 2022.

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, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
	NIS millions				
Available capital					
Common equity Tier 1 capital	**45,262**	44,446	43,494	42,772	42,803
Common equity Tier 1 capital before effect of transitional directives[1]	**44,830**	43,996	43,026	42,561	42,536
Tier 1 capital	**45,262**	44,446	43,494	43,016	43,047
Tier 1 capital before effect of transitional directives[1]	**44,830**	43,996	43,026	42,561	42,536
Total capital	**58,514**	57,619	56,231	55,506	52,438
Total capital before effect of transitional directives[1]	**58,103**	57,218	55,771	54,960	51,674
Risk-weighted assets					
Total risk-weighted assets (RWA)	**407,914**	398,865	389,452	390,280	382,978
Total risk-weighted assets (RWA) before effect of transitional directives[1]	**409,587**	402,830	390,060	390,555	383,329
Capital-adequacy ratios according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	**11.10%**	11.14%	11.17%	10.96%	11.18%
Common equity Tier 1 capital ratio before effect of transitional directives[1]	**10.95%**	10.92%	11.03%	10.90%	11.10%
Tier 1 capital ratio	**11.10%**	11.14%	11.17%	11.02%	11.24%
Tier 1 capital ratio before effect of transitional directives[1]	**10.95%**	10.92%	11.03%	10.90%	11.10%
Total capital ratio	**14.34%**	14.45%	14.44%	14.22%	13.69%
Total capital ratio before effect of transitional directives[1]	**14.19%**	14.20%	14.30%	14.07%	13.48%
Common equity Tier 1 capital ratio required by the Banking Supervision Department[2]	**10.23%**	10.23%	10.23%	9.21%	9.20%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department[2]	**0.87%**	0.91%	0.94%	1.75%	1.98%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures	**732,928**	720,777	710,706	713,511	680,634
Total exposures before effect of transitional directives[1]	**733,152**	721,069	710,949	713,621	680,774
Leverage ratio	**6.18%**	6.17%	6.12%	6.03%	6.32%
Leverage ratio before effect of transitional directives[1]	**6.11%**	6.10%	6.05%	5.96%	6.25%

(1) Before the effect of the transitional directives, including the effect of the adoption of US GAAP on employee benefits; before the effect of adjustments for efficiency plans; before the effect of adjustments in respect of current expected credit losses; and before the effect of adjustments in respect of high-risk loans for land acquisition.
(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, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	**189,487**	195,054	202,455	205,777	205,872
Total net cash outflows	**150,828**	154,857	165,269	165,682	162,010
Liquidity coverage ratio (in %)	**126%**	126%	123%	124%	127%

	On a consolidated basis, as at				
	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021*	September 30, 2021
Net stable financing ratio according to the directives of the Banking Supervision Department**					
Total available stable financing	**397,965**	403,331	394,746	*389,628	-
Total required stable financing	**312,819**	305,916	294,609	*286,706	-
Net stable financing ratio (%)	**127%**	132%	134%	136%	-

* Restated.
** The net stable financing ratio (NSFR) is published beginning with the financial statements as at December 31, 2021.

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 (the 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, and compliance 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 (including climate risk).

The risk-management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting risk-taking in an informed manner in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

B.2.a. Risk management structure and organization

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 Division, as of June 1, 2022, is Ms. M. Ben Shushan Cohen.

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 until July 19, 2022, and Mr. I. Furman as of that date), 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, 2021.

B.3. 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 estimates that a combination of economic and political factors have significantly heightened risks in the global economy over recent months; these risks may have a significant impact on the Israeli economy and on the Bank. The world economy is contending with the belated impacts of the coronavirus pandemic, and of the consequent expansionary fiscal and monetary policies. Inflation rates have soared sharply, initially in response to rising energy and commodity prices and the political, diplomatic, and economic effects of the war in Ukraine, but over time the price gains have become more comprehensive. Most central banks around the world, including the Bank of Israel, began a process of monetary contraction and raising of interest rates. The interest-rate increases led to downward adjustments of financial asset prices, including equities and bonds; market volatility; and concerns over possible recession as a result of the continued increases in interest rates. Initial signs of a recession are already evident in some countries. While the increases in interest rates of central banks in Israel and the United States may potentially increase the profits of the Bank, the Bank and its customers are exposed to financial asset prices, which also affect the equity of the Bank. As the struggle to lower inflation is prolonged and entails more aggressive rate hikes, the risk of recession may also rise, along with the credit risks to which the Bank is exposed.

  For details, see the section "Economic and financial review," in the Report of the Board of Directors and Board of Management, and the section "Construction and real estate" in the section "Credit risk," below.
- **Information security risks and cyber incidents:** 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. These 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. Note that the 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, have intensified the risk. 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, primarily concerned with increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, as well as 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; instead, there may be slower, prolonged effects derived from processes of gradual change in the Bank's environment (customers, market players, etc.), alongside the gradual preparations of the Bank for the necessary adaptations of its operations.
- **Competitive and strategic risk:** Competition from big tech companies (Apple, Google, 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 recently been formulating a comprehensive strategic plan for the period through 2026, encompassing, among other matters, action in the areas of the core activities of the Bank, innovation, technology, the structure of 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 (including international sanctions), 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 and investment 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.4. Discontinuation of publication of the LIBOR interest rates

As of the end of 2021, the publication of the LIBOR interest rates in four currencies (euro, British pound, yen, and Swiss franc) has been discontinued. The LIBOR rates for the US dollar will continue to be published until June 2023. The LIBOR rates served as the basis for calculation of interest rates applicable to financial products denominated in or linked to principal foreign currencies with floating rates. As part of the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as ISDA (International Swaps and Derivatives Association) and ARRC (Alternative Reference Rate Committee) have formulated alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The change affects the banking industry, globally and in Israel.

In accordance with the recommendation of the international committees, the rates of addition to interest rates for the conversion of financial instruments based on these rates were determined in March 2021, according to the ISDA resolutions. The Bank has prepared for the substitution of the reference rate for the financial products it offers to customers. The Bank has adapted its technological systems to the new interest rates and mechanisms.

As of January 1, 2022, the reference rates for current-account products and revolving overdrafts have been replaced with the new reference rates. For loans based on the reference rates the publication of which has been discontinued, the Bank acted in the last quarter of 2021 and is continuing to act to replace the legal agreements with the customers and convert the products at the next interest-rate change date.

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

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

B.5. Review of weighted risk-adjusted assets

Table B-2: Review of weighted risk-adjusted assets

		Risk-weighted assets		Minimum capital requirements*
		September 30, 2022	June 30, 2022	**September 30, 2022**
		NIS millions		
1	Credit risk (standardized approach)**	**358,416**	354,650	**48,386**
6	Counterparty credit risk (standardized approach)	**7,434**	4,783	**1,004**
10	Credit valuation adjustment (CVA)	**4,269**	3,774	**576**
15	Settlement risk	**-**	-	**-**
16	Securitization exposures (standardized approach)	**13**	13	**2**
25	Amounts below deduction thresholds (subject to 250% risk weight)	**8,210**	8,198	**1,108**
	Total credit risk	**378,342**	371,418	**51,076**
20	Market risk (standardized approach)	**5,658**	3,795	**764**
24	Operational risk	**23,914**	23,652	**3,228**
27	Total	**407,914**	398,865	**55,068**

* Capital requirements according to the minimum required total capital ratio, at a rate of 13.5%.

** 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, 2022	September 30, 2021	December 31, 2021
		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	**8,212**	8,200	8,200
2	Retained earnings, including dividends proposed or declared after the balance sheet date	**40,132**	36,045	36,117
3	Accumulated other comprehensive income and disclosed retained earnings	**(3,276)**	(1,528)	(1,582)
5	Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	**-**	9	8
6	Common equity Tier 1 capital before supervisory adjustments and deductions	**45,068**	42,726	42,743
	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	**19**	20	28
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	**31**	9	14
21	Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	**-**	-	-
26	Additional supervisory adjustments and deductions established by the Banking Supervision Department	**(244)**	(106)	(71)
26C	Of which: additional supervisory adjustments to common equity Tier 1 capital	**(244)**	(106)	(71)
26C	Of which: in respect of the efficiency plans	**(158)**	(267)	(211)
26C	Of which: in respect of wage tax	**-**	-	-
26C	Of which: in respect of the business of the corporation with related persons	**159**	161	140
26C	Of which: in respect of expected credit losses	**(274)**	-	-
26C	Of which: in respect of non-accruing housing loans	**29**	-	-
28	Total supervisory adjustments and deductions in common equity Tier 1 capital	**(194)**	(77)	(29)
29	Common equity Tier 1 capital	**45,262**	42,803	42,772

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

		September 30, 2022	September 30, 2021	December 31, 2021
		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	244
36	Additional Tier 1 capital before deductions	**-**	244	244
	Additional Tier 1 capital – deductions			
43	Total deductions from additional Tier 1 capital	**-**	-	-
44	Additional Tier 1 capital	**-**	244	244
45	Tier 1 capital	**45,262**	43,047	43,016
	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	**4,323**	715	3,827
47	Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**-**	11	9
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**4,200**	4,258	4,109
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	85
50	Collective allowances for credit losses before the effect of related tax	**4,729**	4,407	4,545
51	Tier 2 capital before deductions	**13,252**	9,391	12,490
	Tier 2 capital – deductions			
57	Total supervisory adjustments to Tier 2 capital	**-**	-	-
58	Tier 2 capital	**13,252**	9,391	12,490
59	Total capital	**58,514**	52,438	55,506
	Risk-weighted assets			
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**407,569**	382,392	389,462
	Of which: credit risk assets	**377,997**	356,153	362,770
	Of which: market risk assets	**5,658**	3,605	4,097
	Of which: operational risk assets	**23,914**	22,634	22,595
60	Total risk-weighted assets	**407,914**	382,978	390,280

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

		September 30, 2022	September 30, 2021	December 31, 2021
		NIS millions / percent		
	Capital ratios and capital preservation cushions			
61	Common equity Tier 1 capital	**11.10%**	11.18%	10.96%
62	Tier 1 capital	**11.10%**	11.24%	11.02%
63	Total capital	**14.34%**	13.69%	14.22%
	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 is 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.	**10.23%**	9.20%	9.21%
71	The minimum required total capital ratio is 13.5%; in the period of the Temporary Order, it is 12.5%.	**13.50%**	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	**482**	1,456	1,427
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	**107**	189	185
75	Deferred tax assets arising from timing differences, below the deduction threshold	**3,402**	3,423	3,419
	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	**4,901**	4,407	4,567
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	**4,729**	4,459	4,545

C.2. Capital adequacy

C.2.a. The Bank's approach to capital-adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department.

These directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth the internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

C.2.b. Capital-adequacy target and capital planning and management

Pursuant to the directives of the Banking Supervision Department, 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 10.0% and a minimum total capital ratio of 13.5%. A capital requirement is added to the common equity Tier 1 capital 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 aimed at coping with the coronavirus crisis. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, as at September 30, 2022, stand at 10.23% and 13.50%, respectively.

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 order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to comply with the established capital targets. As part of the establishment of the internal capital targets of the Bank, as detailed below, the policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of a such a stress event.

Based on the processes of establishment of internal capital targets of the Bank and the results of the internal discussions held with the Banking Supervision Department (as described above), the Board of Directors of the Bank set an internal target for the common equity Tier 1 capital ratio at a rate of no less than 10.5%.

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department and with the internal target, while maintaining safety margins.

The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.
- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions.

The sensitivity of the capital reserve in respect of bonds available for sale, net, after tax effect, to a theoretical increase of 1% in the risk-free interest rate and in the credit risk spread is estimated at a decrease in the amount of approximately NIS 0.6 billion and approximately NIS 0.4 billion, respectively. The sensitivity of the capital reserve arising from adjustments for actuarial changes, net, after tax effect, to a theoretical increase of 1% in the discount rate is estimated at an increase in the amount of approximately NIS 0.2 billion.

Dividends

Dividend distribution by the Bank is subject to tests and limits set forth in the Companies Law and in the directives of the Banking Supervision Department, including Proper Conduct of Banking Business Directive 331.

The dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution and the rate thereof 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 the directives of all laws, any constraints on distribution, and business considerations, in accordance with the growth strategy of the Bank.

At the dates of approval of the financial statements for the year 2021 and for the first quarter of 2022, the Board of Directors resolved to retain accumulated capital surpluses and refrain from declaring dividend distribution, due to prioritization of continued implementation of the growth strategy.

In the second quarter of 2022, the Board of Directors of the Bank resolved to resume a trajectory of ongoing dividend distribution, while continuing to maintain balanced growth. Distributions will be subject to the results of the Bank, developments in the markets and in macroeconomic conditions, and the effect of the implementation of regulatory directives, as well as compliance with legal tests.

On August 14, 2022, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 403 million, constituting approximately 30% of the net profit of the Bank for the second quarter of 2022, paid on September 7, 2022.

At the date of approval of these financial statements, the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 536 million, constituting approximately 30% of the net profit of the Bank for the third quarter of 2022, to be paid on December 11, 2022.

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.

The total volume of the personnel efficiency plan to which the reliefs apply is NIS 352 million, net of tax effect. The efficiency plan of 2016, at a volume of NIS 762 million, net of tax effect, was fully recognized in supervisory capital in the financial statements as at December 31, 2021.

The effect of the aforesaid plans was recorded 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 0.04% as at September 30, 2022.

The subsidiary of the Bank in Turkey

The Bank Group currently operates in Turkey through Bank Pozitif, which operates and specializes in corporate banking.

In accordance with the strategy of the Bank, the Bank is acting to sell its investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

For details regarding actions taken by the Bank to sell the investment and the agreement signed to acquire the holdings of the former minority shareholder, see Note 15F to the Financial Statements as at December 31, 2021.

With regard to the agreement for the acquisition of the minority interests in Bank Pozitif, the transaction was completed on March 10, 2022, and thereafter the Bank holds Bank Pozitif under its full ownership.

In accordance with the requirement of the Banking Supervision Department, from January 2021 to May 2022, risk-adjusted assets in respect of the subsidiary were weighted at a rate of 600% (from January 2020 to December 2020, the required rate of weighting was 300%). In May 2022, the Banking Supervision Department approved reduction of the weighting rate to 300%. The relief has been applied beginning with the financial statements for the second quarter of 2022, and has led to an increase in the common equity Tier 1 capital ratio of the Bank of approximately 0.02%.

The Bank also has a credit line for Bank Pozitif at a volume of approximately USD 45 million, of which a total of approximately USD 24 million is utilized as at the end of September 2022. The credit line was granted at an interest rate below market terms, taking into consideration the position of the Turkish regulator regarding the pricing of the credit line, and the challenging condition of the Turkish economy and of Bank Pozitif. 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 credit line was renewed in December 2021, for the earlier of twelve months or the date when the Bank ceases to be a principal shareholder of Bank Pozitif. In November 2022, the credit line was renewed for twelve additional months, at a level of approximately USD 35 million.

The aforesaid effects, in total, on the common equity Tier 1 capital ratio of the Bank as at September 30, 2022, amount to a reduction of 0.04%.

Effect of the implementation of accounting principles concerning current expected credit losses on supervisory capital

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022. The effect of the implementation caused a decrease in the common equity Tier 1 capital of the Bank. Pursuant to the circular of the Banking Supervision Department, the Bank will record the effect of the implementation of the standard gradually, over a period of three years. The effect of the reliefs in respect of the implementation of the new rules on the common equity Tier 1 capital ratio is estimated at approximately 0.08% as at September 30, 2022.

For further details regarding the effect of the implementation of the new rules on supervisory capital, see Note 1C to the Condensed Financial Statements.

Issuance of notes with a loss-absorption mechanism

In March 2022, the Bank issued Subordinated Notes (Series F) at a volume of approximately NIS 0.4 billion. 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 5.0%. The notes are included in the Tier 2 capital of the Bank, pursuant to Proper Conduct of Banking Business Directive 202. The notes are for a period of eleven years. The Bank has an option for full early redemption, beginning six years from the date of issuance of the notes, subject to the fulfillment of certain conditions. The notes are linked to the consumer price index and bear interest at a fixed rate of 0.84%. If the notes are not prepaid after six years, the interest rate will be adjusted according to the annual yield of linked bonds of the State of Israel, plus a margin.

In early November 2022, the Bank executed full early redemption of Subordinated Notes (Series C), in the amount of approximately NIS 1.7 billion. The Subordinated Notes (Series C) are not recognized in supervisory capital as of January 2022.

The Bank is considering a possible offering under a shelf prospectus report of subordinated notes with a loss-absorption mechanism, and of bonds, shortly after the publication of this report. In this context, draft trust deeds of subordinated note series and bonds were published in November 2022.

Directives pertaining to capital allocation in respect of derivative financial instruments

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 December 2021, the Banking Supervision Department issued a circular updating directives pertaining to capital allocation in respect of derivative financial instruments. The circular is aimed at adjusting the Proper Conduct of Banking Business Directives to several new directives and updates issued by the Basel Committee in recent years that pertain to counterparty credit risk. Pursuant to the circular, Directive 203A, on the subject of the treatment of counterparty credit risk, was added. This directive contains a new approach – the standardized approach (SA-CCR), which 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. Implementation of the directive is required as of July 1, 2022.

A circular updating Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk," was issued on August 1, 2022. Risk weights in the calculation of capital allocation in respect of CVA risk for exposures of banking corporations to insurance companies, provident funds, and mutual funds were updated in accordance with the circular.

In accordance with the circular, due to the low risk, the Banking Supervision Department has decided to reduce the risk weight attributed to insurance companies, provident funds, and mutual funds, such that it is equal to the risk weight attributed to banking corporations.

The implementation of the new rules increases capital requirements in respect of derivative instruments, decreases the leverage ratio, and affects the calculation of the single borrower limit. The effect of the implementation of the new requirements, at the initial implementation date, led to an increase in the amount of approximately NIS 2.6 billion in credit-risk assets, and a decrease of approximately 0.07% and 0.10% in the common equity Tier 1 capital ratio and the total capital ratio, respectively. The new requirements also lead to a decrease of approximately 0.06% in the leverage ratio.

Pursuant to the circular of December 2021, Directive 208A, on the subject of new approaches to capital allocation in respect of CVA risk, was also added. The directive presents several possible approaches to the calculation of the capital allocation in respect of CVA risk. According to a circular released by the Banking Supervision Department on February 21, 2022, implementation of the directive is required as of January 1, 2025.

Circular updating Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk"

A circular updating Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Standardized Approach – Credit Risk," was issued on May 22, 2022. Pursuant to the circular, loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) are added to the list of loans risk weighted at 150%, with the exception of loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation. The effect of the circular is being spread over equal quarterly installments, from September 30, 2022, to June 30, 2023. With respect to the existing inventory of loans as at June 30, 2022, at its current balance in the report for September 30, 2022, the effect of the circular, excluding implementation of the transitional directives, leads to an additional future decrease of approximately 0.03% and 0.03% in the common equity Tier 1 capital ratio and the total capital ratio, respectively. In this context, it should be noted that talks are underway with the Bank of Israel on several matters with regard to the manner of implementation of the directive, and that, inasmuch as further clarification is provided, it may affect the implementation method and increase the scope of the 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 was lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, in 2022 these instruments are no longer included in supervisory capital.

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 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, as a temporary order, 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 6.0% prior to the relief).

The period of the relief has been extended until December 31, 2023; after that date, the requirement is to return to the leverage ratio required prior to the Temporary Order (6.0%) within two quarters.

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

	September 30, 2022	September 30, 2021	December 31, 2021
		NIS millions	
Total consolidated assets as per published financial statements	**658,336**	604,324	638,781
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	**(2,620)**	1,164	(2,431)
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**72,741**	71,527	73,397
Other adjustments	**4,471**	3,619	3,764
Exposure for the purposes of the leverage ratio	**732,928**	680,634	713,511

Table C-3: Leverage ratio disclosure

	September 30, 2022	September 30, 2021	December 31, 2021
	NIS millions / percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**623,290**	596,660	624,661
Asset amounts deducted in determining Tier 1 capital	**(19)**	(20)	(28)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**623,271**	596,640	624,633
Derivative exposures			
Replacement cost associated with all derivatives transactions	**8,148**	2,711	3,735
Add-on amounts for potential future exposure associated with all derivatives transactions	**17,779**	10,749	10,781
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)	(3,963)
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	**25,927**	11,248	10,553
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**10,989**	1,219	4,928
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	**10,989**	1,219	4,928
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**221,848**	212,873	223,394
Adjustments for conversion to credit equivalent amounts	**(149,107)**	(141,346)	(149,997)
Off-balance sheet items	**72,741**	71,527	73,397
Capital and total exposures			
Tier 1 capital*	**45,262**	43,047	43,016
Total exposures*	**732,928**	680,634	713,511
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**6.18%**	6.32%	6.03%
Minimum leverage ratio required by the Banking Supervision Department in the period of the Temporary Order	**5.50%**	5.50%	5.50%
Minimum leverage ratio required by the Banking Supervision Department after the end of the Temporary Order	**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 Note 9I to the Condensed Financial Statements). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at September 30, 2022, estimated at an additional future decrease of approximately 0.02%, is recorded in equal parts over five years, beginning at the inception date thereof. In addition, the data include adjustments in respect of the effect of the implementation of accounting principles concerning estimated credit losses, which are gradually reduced until December 31, 2024 (see Note 9K to the Condensed Financial Statements). The effect of the reliefs in respect of expected credit losses as at September 30, 2022, is estimated at an additional future decrease of approximately 0.04%.

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.

D.1. Credit quality of credit exposures

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. Within this process, the term "impaired" has been eliminated, and non-accruing credit is presented instead. Accordingly, accruing debts previously classified as impaired debts are not stated within non-accruing debts, and housing loans past due by 90 days or more, previously classified as accruing debts, are classified as non-accruing debts. For further details regarding the implementation of the directive and the effect thereof, see Note 1C, Note 6, and Note 13 to the Condensed Financial Statements.

Table D-1: Credit risk indicators

The Bank has implemented United States generally accepted accounting principles concerning current expected credit losses (CECL) as of January 1, 2022, prospectively. However, in this table, for the purpose of analysis of changes in credit risk, data referring to December 31, 2021, were restated to reflect the allowance and the change in classifications due to the implementation of the directive. For further details, see Note 1C to the Condensed Financial Statements.

	As at							
	September 30, 2022				December 31, 2021			
	Commercial	Private individuals – housing loans	Private individuals – other	Total	Commercial	Private individuals – housing loans	Private individuals – other	Total
Analysis of quality of credit to the public								
Non-accruing credit as a percentage of the balance of credit to the public	**1.00%**	**0.43%**	**0.64%**	**0.78%**	1.39%	0.52%	1.36%	1.11%
Balance of credit to the public, non-accruing or past due by 90 days or more, as a percentage of the balance of credit to the public	**1.02%**	**0.43%**	**0.76%**	**0.80%**	1.41%	0.52%	1.48%	1.13%
Problematic credit as a percentage of the balance of credit to the public	**2.34%**	**0.43%**	**1.89%**	**1.68%**	3.26%	0.52%	2.06%	2.26%
Credit not at credit execution rating as a percentage of the balance of credit to the public	**4.71%**	**0.98%**	**8.92%**	**3.87%**	6.89%	2.94%	9.15%	5.84%
Analysis of provision for credit losses in the reported period								
Provision for credit losses as a percentage of the average balance of credit to the public	**(0.33%)**	**0.04%**	**0.03%**	**(0.18%)**	(0.30%)	(0.21%)	(1.24%)	(0.37%)
Net charge-offs as a percentage of the average balance of credit to the public	**0.05%**	**-**	**(0.03%)**	**0.03%**	0.09%	-	0.07%	0.06%
Analysis of allowance for credit losses in respect of credit to the public								
Total allowance for credit losses* as a percentage of credit to the public	**2.06%**	**0.38%**	**2.58%**	**1.56%**	2.44%	0.39%	2.62%	1.80%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public	**1.72%**	**0.36%**	**2.44%**	**1.34%**	1.99%	0.36%	2.49%	1.51%
Allowance for credit losses as a percentage of the balance of non-accruing credit to the public	**171.53%**	**82.94%**	**380.53%**	**171.18%**	143.39%	68.91%	183.90%	137.02%
Allowance for credit losses as a percentage of the balance of credit to the public, non-accruing or past due by 90 days or more	**168.84%**	**82.94%**	**323.31%**	**167.00%**	141.43%	68.91%	168.22%	134.17%
Ratio of allowance for credit losses to net charge-offs	**33.8**	**(339.0)**	**(80.6)**	**50.6**	24.1	410.0	34.7	27.4

* Including the allowance in respect of off-balance sheet balances.

Note:
Credit to the public – before deduction of the allowance for credit losses.

Portfolio quality analysis

The following credit risk indicators decreased (improved) in the first nine months of 2022, compared with the end of 2021:

- Non-accruing credit as a percentage of the balance of credit to the public, for the Bank as a whole and for each segment.
- The balance of credit to the public, non-accruing or past due by 90 days or more, as a percentage of the balance of credit to the public, for the Bank as a whole and for each segment.
- Problematic credit as a percentage of the balance of credit to the public, for the Bank as a whole and for each segment.
- Credit not at credit execution rating as a percentage of the balance of credit to the public, for the Bank as a whole and for each segment.
- Net charge-offs as a percentage of the average balance of credit to the public, for the Bank as a whole and for each segment.
- The allowance for credit losses as a percentage of the balance of credit to the public decreased, influenced by improvement in portfolio quality indicators and income from recoveries for the Bank as a whole. Improvement was also recorded in each segment, with the exception of the segment "private individuals – housing loans," which remained stable. Note that the collective allowance increased, despite the improvement in portfolio quality indicators. This increase reflects an increase in uncertainty of economic conditions and a higher probability of a crisis, particularly in the area of construction and real estate.

In the indicator of the provision for credit losses as a percentage of the average balance of credit to the public of the Bank as a whole, income was recorded, similar to the data for 2021 but to a lesser extent.

The Bank estimates that the quality of the credit portfolio is good, as reflected in the indicators above. However, the changes in the economic environment indicate an increase in the probability of worsening of macroeconomic conditions, and correspondingly, of an increase in the level of borrowers' credit risk.

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

As part of the measures to cope with the coronavirus, changes in terms of debts were applied which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department. As at September 30, 2022, debts in deferral of payments are primarily housing loans, in the amount of approximately NIS 438 million (December 31, 2021: NIS 617 million).

State-backed loans

In view of the coronavirus outbreak of early 2020, the State resolved on the establishment of a dedicated loan fund, primarily to assist business clients 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: the loans are for a period of up to ten years, at an interest rate of Prime + 1.5%, and include certain reliefs approved as part of the plan, within which loan payments can be deferred.

As at September 30, 2022, the balance of state-backed loans is NIS 3,721 million (December 31, 2021: NIS 5,009 million), primarily granted to small-business and microbusiness clients.

Table D-2: Credit quality of credit exposures

		September 30, 2022			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Non-accruing or past due by 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	**3,109**	**399,612**	**5,217**	**397,504**
2	Bonds	**-**	**86,086**	**13**	**86,073**
3	Off-balance sheet exposures	**815**	**220,052**	**838**	**220,029**
4	Total	**3,924**	**705,750**	**6,068**	**703,606**

		September 30, 2021			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or past due by 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

		December 31, 2021			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or past due by 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	4,296	369,018	5,112	368,202
2	Bonds	-	67,455	-	67,455
3	Off-balance sheet exposures	812	221,325	797	221,340
4	Total	5,108	657,798	5,909	656,997

For further details, see Table 3-4: Additional information regarding changes in non-accruing credit to the public, in the Report of the Board of Directors and Board of Management.

D.2. Credit risk exposures

Details of exposures by economic sector

Table D-3: Details of exposures by economic sector in Israel

	September 30, 2022									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended September 30, 2022[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses[10]
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	**3,366**	**3,222**	**28**	**3,360**	**2,784**	**28**	**4**	**(14)**	**(24)**	**47**
Mining and quarrying	**1,837**	**1,201**	**631**	**1,837**	**1,105**	**631**	**629**	**(531)**	**-**	**187**
Industry	**32,773**	**31,821**	**469**	**32,287**	**16,615**	**466**	**139**	**53**	**(21)**	**312**
Construction and real estate – construction[7]	**99,724**	**97,369**	**968**	**99,650**	**44,130**	**968**	**627**	**(114)**	**(54)**	**866**
Construction and real estate – real-estate activities	**35,026**	**34,160**	**91**	**34,781**	**29,404**	**91**	**71**	**105**	**(55)**	**566**
Electricity and water supply	**14,082**	**13,653**	**296**	**13,412**	**6,322**	**296**	**109**	**(71)**	**39**	**388**
Commerce	**40,495**	**38,730**	**593**	**40,153**	**28,160**	**593**	**238**	**(29)**	**2**	**322**
Hotels, hospitality, and food services	**11,429**	**10,367**	**729**	**11,420**	**9,626**	**729**	**119**	**(5)**	**(5)**	**186**
Transportation and storage	**12,753**	**11,762**	**593**	**12,533**	**8,451**	**591**	**271**	**40**	**10**	**277**
Information and communications	**8,173**	**7,744**	**141**	**8,084**	**5,367**	**141**	**128**	**16**	**(9)**	**123**
Financial services	**58,917**	**58,634**	**25**	**42,570**	**27,691**	**25**	**22**	**(130)**	**(4)**	**181**
Other business services	**17,618**	**16,492**	**183**	**17,442**	**11,243**	**183**	**31**	**60**	**9**	**227**
Public and community services	**9,215**	**8,531**	**405**	**9,208**	**6,758**	**405**	**23**	**(15)**	**5**	**178**
Total commercial[8]	**345,408**	**333,686**	**5,152**	**326,737**	**197,656**	**5,147**	**2,411**	**(635)**	**(107)**	**3,860**
Private individuals – housing loans	**133,705**	**132,489**	**531**	**133,705**	**125,585**	**531**	**531**	**34**	**1**	**478**
Private individuals – other	**53,439**	**50,161**	**667**	**53,433**	**35,175**	**667**	**227**	**7**	**7**	**910**
Total public – activity in Israel	**532,552**	**516,336**	**6,350**	**513,875**	**358,416**	**6,345**	**3,169**	**(594)**	**(99)**	**5,248**
Banks in Israel[9]	**1,381**	**1,381**	**-**	**1,228**	**222**	**-**	**-**	**1**	**-**	**1**
Israeli government	**54,816**	**54,816**	**-**	**806**	**803**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**588,749**	**572,533**	**6,350**	**515,909**	**359,441**	**6,345**	**3,169**	**(593)**	**(99)**	**5,249**

(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 359,441; 53,497; 1,028; 8,596; and 166,187 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 non-accruing, substandard, or special mention credit risk, including in respect of housing loans for which an allowance based on past-due status exists, and housing loans for which an allowance based on past-due status does not exist, which are past due by 90 days or more.

(7) Including balance sheet credit risk in the amount of approximately NIS 345 million and off-balance sheet credit risk in the amount of approximately NIS 714 million extended to certain purchasing groups currently in the process of construction.

(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 1,059 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.

(10) The collective allowance component in respect of qualitative adjustments arising from the pace of growth of the balances of credit for construction and real estate and reliefs in underwriting is included, as of June 30, 2022, as part of the allowance for credit losses in the construction and real-estate sectors, similar to its inclusion prior to the implementation of the directives of the Bank of Israel concerning current expected credit losses (CECL).

Table D-3: Details of exposures by economic sector in Israel (continued)

	December 31, 2021									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2021[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	3,302	3,119	35	3,293	2,574	35	8	(29)	(27)	15
Mining and quarrying	2,225	1,375	845	2,223	1,437	844	776	2	-	699
Industry	34,554	33,516	539	34,028	15,688	539	178	(28)	52	280
Construction and real estate – construction[7]	95,350	93,465	873	95,193	42,343	873	557	103	(124)	798
Construction and real estate – real-estate activities	35,698	34,927	212	35,480	27,581	212	127	(182)	(77)	469
Electricity and water supply	14,046	13,030	946	13,035	7,393	918	147	60	69	187
Commerce	41,705	39,627	689	41,237	26,920	688	265	(219)	(19)	755
Hotels, hospitality, and food services	11,973	10,477	871	11,945	10,077	854	166	(45)	12	256
Transportation and storage	12,140	11,239	411	12,022	8,173	385	323	(24)	10	113
Information and communications	7,274	6,956	158	7,225	4,190	158	147	(190)	(45)	143
Financial services	50,636	50,283	154	41,952	23,541	154	6	9	(2)	253
Other business services	16,228	14,743	171	16,165	10,624	171	87	(11)	28	189
Public and community services	9,284	8,727	73	9,277	6,729	73	41	(12)	1	70
Total commercial[8]	334,415	321,484	5,977	323,075	187,270	5,904	2,828	(566)	(122)	4,227
Private individuals – housing loans	125,207	121,811	570	125,207	114,612	570	1	(226)	(1)	527
Private individuals – other	52,381	49,033	720	52,374	34,754	720	649	(424)	(25)	625
Total public – activity in Israel	512,003	492,328	7,267	500,656	336,636	7,194	3,478	(1,216)	(148)	5,379
Banks in Israel[9]	6,511	6,511	-	5,226	167	-	-	-	-	-
Israeli government	41,758	41,758	-	790	787	-	-	-	-	-
Total activity in Israel	560,272	540,597	7,267	506,672	337,590	7,194	3,478	(1,216)	(148)	5,379

(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 337,590; 39,639; 1,253; 4,789; and 177,001 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 special mention, including in respect of housing loans for which an allowance based on past-due status exists, and housing loans for which an allowance based on past-due status does not exist which are past due by 90 days or more.
(7) Including balance sheet credit risk in the amount of approximately NIS 733 million and off-balance sheet credit risk in the amount of approximately NIS 988 million extended to certain purchasing groups currently in the process of construction. Also includes off-balance sheet credit risk in the amount of approximately NIS 3,755 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 74 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-3: Details of exposures by economic sector outside Israel (continued)

	September 30, 2022									
	Total credit risk[(1)]			Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]				Credit losses for the year ended September 30, 2022[(4)]		
	Total credit risk[(1)]	Of which: credit execution rating[(5)]	Of which: problematic credit risk[(6)]	Total	Of which: debts[(2)]	Problematic[(6)]	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	**163**	**163**	**-**	**163**	**163**	**-**	**-**	**-**	**-**	**1**
Mining and quarrying	**722**	**722**	**-**	**382**	**74**	**-**	**-**	**1**	**-**	**11**
Industry	**4,290**	**4,267**	**22**	**2,988**	**1,865**	**22**	**5**	**(5)**	**-**	**28**
Construction and real estate	**13,804**	**12,913**	**698**	**13,700**	**9,561**	**698**	**566**	**50**	**16**	**484**
Electricity and water supply	**983**	**934**	**-**	**786**	**170**	**-**	**-**	**(5)**	**-**	**5**
Commerce	**3,893**	**3,849**	**44**	**3,538**	**3,031**	**44**	**44**	**44**	**(2)**	**56**
Hotels, food services, and hospitality	**3,575**	**3,078**	**499**	**3,575**	**2,768**	**499**	**6**	**(10)**	**-**	**88**
Transportation and storage	**925**	**831**	**72**	**812**	**706**	**72**	**29**	**5**	**(4)**	**28**
Information and communications	**2,522**	**2,510**	**12**	**2,191**	**1,743**	**12**	**12**	**-**	**3**	**16**
Total financial services	**9,376**	**9,371**	**1**	**5,459**	**4,675**	**1**	**1**	**11**	**-**	**35**
Other business services	**1,637**	**1,517**	**119**	**1,628**	**1,041**	**110**	**-**	**6**	**8**	**15**
Public services	**2,466**	**2,463**	**1**	**2,294**	**1,925**	**1**	**1**	**6**	**-**	**20**
Total commerce[(7)]	**44,356**	**42,618**	**1,468**	**37,516**	**27,722**	**1,459**	**664**	**103**	**21**	**787**
Private individuals – housing loans	**620**	**593**	**14**	**620**	**582**	**14**	**14**	**-**	**-**	**5**
Private individuals – other	**190**	**187**	**-**	**190**	**55**	**-**	**-**	**-**	**1**	**-**
Total public – activity overseas	**45,166**	**43,398**	**1,482**	**38,326**	**28,359**	**1,473**	**678**	**103**	**22**	**792**
Banks overseas[(8)]	**24,961**	**24,955**	**-**	**14,565**	**13,798**	**-**	**-**	**9**	**-**	**10**
Governments overseas	**24,025**	**23,934**	**-**	**1,254**	**1,123**	**-**	**-**	**17**	**-**	**17**
Total activity overseas	**94,152**	**92,287**	**1,482**	**54,145**	**43,280**	**1,473**	**678**	**129**	**22**	**819**
Total in Israel and overseas	**682,901**	**664,820**	**7,832**	**570,054**	**402,721**	**7,818**	**3,847**	**(464)**	**77**	**6,068**

(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 43,280, 32,589, 0, 1,443, and 16,840 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 special mention, including in respect of housing loans for which an allowance based on past-due status exists, and housing loans for which an allowance based on past-due status does not exist which are past due by 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-3: Details of exposures by economic sector outside Israel (continued)

	December 31, 2021									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2021[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Total	Of which: debts[2]	Problematic[6]	Non-accruing	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses[9]
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	193	193	-	193	193	-	-	(1)	-	1
Mining and quarrying	801	777	24	354	57	24	-	(3)	-	1
Industry	3,967	3,119	511	2,917	1,879	511	5	(8)	(15)	28
Construction and real estate – construction	11,424	9,082	824	11,290	7,982	824	702	15	(23)	300
Electricity and water supply	795	740	5	436	123	5	5	(1)	1	5
Commerce	2,896	2,685	162	2,851	2,351	162	54	3	(6)	27
Hotels, food services, and hospitality	3,415	2,532	753	3,414	2,650	753	101	-	(2)	77
Transportation and storage	931	811	83	613	487	83	31	(11)	1	23
Information and communications	1,635	1,589	18	1,413	869	18	18	(1)	(1)	11
Total financial services	8,719	8,643	66	2,949	1,991	66	1	(2)	(5)	14
Other business services	1,260	1,211	8	1,260	825	8	2	5	-	14
Public services	1,831	1,745	23	1,566	1,117	23	23	-	-	16
Total commerce[7]	37,867	33,127	2,477	29,256	20,524	2,477	942	(4)	(50)	517
Private individuals – housing loans	553	522	26	553	515	26	-	-	-	6
Private individuals – other	177	174	1	177	54	1	1	(1)	-	1
Total activity overseas	38,597	33,823	2,504	29,986	21,093	2,504	943	(5)	(50)	524
Total banks[8]	27,607	27,603	-	14,229	13,444	-	-	-	-	1
Governments overseas	22,644	22,644	-	1,200	1,187	-	-	1	-	5
Total activity overseas	88,848	84,070	2,504	45,415	35,724	2,504	943	(4)	(50)	530
Total in Israel and overseas	649,120	624,667	9,771	552,087	373,314	9,698	4,421	(1,220)	(198)	5,909

(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 35,724; 27,816; 8,196; and 17,112 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 special mention, including in respect of housing loans for which an allowance based on past-due status exists, and housing loans for which an allowance based on past-due status does not exist which are past due by 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.
(9) The collective allowance component in respect of qualitative adjustments arising from the pace of growth of the balances of credit for construction and real estate and reliefs in underwriting is included, as of June 30, 2022, as part of the allowance for credit losses in the construction and real-estate sectors, similar to its inclusion prior to the implementation of the directives of the Bank of Israel concerning current expected credit losses (CECL).

Table D-4: Exposure of the Bank Group to foreign financial institutions[1]

	September 30, 2022			December 31, 2021		
	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[4]						
AAA to AA-	**4,268**	**9,501**	**13,769**	1,823	2,792	4,615
A+ to A-	**10,362**	**10,934**	**21,296**	12,204	6,296	18,500
BBB+ to BBB-	**170**	**84**	**254**	500	161	661
BB+ to B-	**26**	**-**	**26**	3	16	19
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**190**	**83**	**273**	141	57	198
Total present credit exposures to foreign financial institutions	**15,016**	**20,602**	**35,618**	14,671	9,322	23,993

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities, but do not include credit exposure to foreign financial institutions backed by government guarantees.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other balance sheet risk in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit.
(4) According to the lowest of the long-term foreign-currency credit ratings assigned by one of the major rating agencies S&P and Moody's.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 35.6 billion on September 30, 2022, an increase of approximately NIS 11.6 billion, compared with approximately NIS 24.0 billion at the end of 2021. This increase resulted from an increase in off-balance sheet exposure in the amount of approximately NIS 11.3 billion, which mainly resulted from the acquisition of credit insurance from foreign insurers. Approximately 98.4% 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: 42.7% in banks and bank holding companies, 57% in insurance companies, and 0.3% in another financial institution.

The exposure of the Bank Group is to foreign financial institutions operating in Western European countries (73.4%), the United States (22.2%), and South and East Asian countries (4.4%).

D.3. Additional information regarding exposures to credit risks

D.3.a. Construction and real estate

Activity in the construction and real-estate sectors grew considerably over the last year, in both residential and non-residential construction. Residential construction starts are now approaching 75,000 units per year. Concurrently, market trends are indicating a significant decrease in purchases of new homes, though in comparison to the high level of 2021. The pace of monthly sales is now similar to the pre-Covid period, in 2019, although, as noted, construction starts have increased, so that the inventory of unsold homes is also higher. Interest-rate increases have reduced households' ability to buy homes and lowered purchases by investors. Data from the Central Bureau of Statistics thus far indicate a continued increase in prices of homes, completing a 19% gain over the last year. A sharp trend reversal is evident in many countries, with prices now falling.

As a result of the growth in this sector, demand for corporate credit in the construction and real-estate sectors increased; accordingly, the Bank increased its activity in financing for the real-estate sectors and real-estate projects in the course of 2021, with certain adjustments and reliefs. Financing rates rose moderately, while credit spreads were eroded somewhat (for details, see Note 12 to the Condensed Financial Statements, "Supervisory Operating Segments"). The growth of the portfolio slowed significantly in the first nine months of 2022. The Bank is operating within its credit risk management limits, while examining risk-adjusted profitability.

Further to the guidelines of the Banking Supervision Department, criteria have been established for underwriting of credit considered at heightened risk. The bank has monitored performance accordingly beginning in the second quarter of 2021. According to the estimates of the Bank, the adjustments and reliefs applied in underwriting terms have not led to a material change in the risk level, taking into consideration compensatory factors with respect to this credit. The Bank also reflected these factors in determining the adequate collective allowance for the construction and real-estate sector, as detailed below. The Bank is examining the potential implications of the changes in the economic environment, and performs the required adjustments as necessary.

Table D-5: Segmentation of credit risk in the construction and real-estate sectors, by principal area of activity

	Balance as at September 30, 2022					
	Balance sheet credit risk	Off-balance sheet credit[1]		Credit risk before effect of haircuts and deductions	Effect of haircuts and deductions	Total credit risk
	Loans[2]	Unutilized credit facilities	Guarantees			
	NIS millions					
Corporate Banking Division						
Construction for commerce and services	**3,476**	**1,541**	**1,098**	**6,115**	**(967)**	**5,148**
Construction for industry	**334**	**20**	**48**	**402**	**-**	**402**
Housing construction	**26,482**	**35,356**	[2]**52,691**	**114,529**	**(48,543)**	**65,986**
Yield-generating properties	**24,807**	**4,377**	**797**	**29,981**	**(157)**	**29,824**
Other	**9,713**	**8,718**	**6,711**	**25,142**	**(3,068)**	**22,074**
Corporate Banking Division total	**64,812**	**50,012**	**61,345**	**176,169**	**(52,735)**	**123,434**
Retail Banking Division	**8,818**	**1,779**	**720**	**11,317**	**(1)**	**11,316**
Total activity in Israel	**73,630**	**51,791**	**62,065**	**187,486**	**(52,736)**	**134,750**

(1) Balance of contracts before the effect of haircuts of Sale Law guarantees.
(2) Includes balance sheet and off-balance sheet credit risk in respect of which insurance was acquired, mainly from foreign insurance companies, for the portfolio of credit for land. For further details, see the Report on Risks as at September 30, 2022.

	Balance as at December 31, 2021*					
	Balance sheet credit risk	Off-balance sheet credit[1]		Credit risk before effect of haircuts and deductions	Effect of haircuts and deductions	Total credit risk
	Loans[2]	Unutilized credit facilities	Guarantees			
	NIS millions					
Corporate Banking Division						
Construction for commerce and services	3,671	1,375	755	5,801	(603)	5,198
Construction for industry	317	54	38	409	-	409
Housing construction	24,641	36,949	[2]41,917	103,507	(41,808)	61,699
Yield-generating properties	23,325	7,270	1,052	31,647	(799)	30,848
Other	9,161	8,199	6,887	24,247	(3,014)	21,233
Corporate Banking Division total	61,115	53,847	50,649	165,611	(46,224)	119,387
Retail Banking Division	8,809	2,145	692	11,646	-	11,646
Total activity in Israel	69,924	55,992	51,341	177,257	(46,224)	131,033

* Reclassified.
(1) Balance of contracts before the effect of haircuts of Sale Law guarantees.
(2) Includes balance sheet and off-balance sheet credit risk in respect of which insurance was acquired from insurance companies for the portfolio of credit for land. For further details, see the Report on Risks as at September 30, 2022.

Overall credit risk in the construction and real-estate sectors in Israel totaled approximately NIS 135 billion as at September 30, 2022. Total risk of credit to the public in the construction and real-estate sectors in Israel increased by approximately 2.8% in the first nine months of 2022 (5.8% before the effect of haircuts and deductions). Most of the exposure is at the Corporate Banking Division (mid-sized and large customers), at approximately 92% of total credit risk in the construction and real-estate sectors in Israel.

Exposure to companies operating primarily in the residential construction industry at the Corporate Banking Division constitutes approximately 54% of the exposure of the division to the construction and real-estate sector. Most financing for companies in this industry consists of financing of land for housing and financing of residential construction projects nationwide. Exposure to companies operating in the areas of construction of buildings for commerce, services, and industry, as well as yield-generating properties for rent, at the Corporate Banking Division constitutes approximately 29% of the exposure of the division to the construction and real-estate sector.

Table D-6: Analysis of credit quality in the construction and real-estate sectors

	Balance as at		Change
	September 30, 2022	December 31, 2021	December 31, 2021
	NIS millions		
Credit risk at credit execution rating			
Non-problematic credit risk	**144,442**	137,438	5.1%
Credit risk not at credit execution rating			
Problematic accruing (up to December 31, 2021: problematic unimpaired)	**493**	524	(5.9%)
Non-accruing (up to December 31, 2021: impaired)	**1,264**	1,368	(7.6%)
Non-problematic	**2,355**	3,081	(23.6%)
Total credit risk not at credit execution rating	**4,112**	4,973	(17.3%)
Total	**148,554**	142,411	4.3%

Total credit risk not at credit execution rating decreased by 17.3% in the first nine months of 2022. Total credit risk not at credit execution rating as a percentage of total credit risk decreased from 3.5% to 2.8% in the first nine months of 2022.

The Bank estimates that the quality of the credit portfolio in construction and real estate is good, as reflected in indicators such as the percentage of problematic non-accruing debt and the percentage of credit not at credit execution rating. However, the changes in the economic environment indicate an increase in the probability of worsening in these sectors, and consequently of an increase in the level of borrowers' credit risk. As a conservative measure, the Bank increased its collective allowance in respect of this portfolio.

Table D-7: Risk of credit in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity[(1)]

	Balance as at September 30, 2022				
	Land	Real estate in construction processes[(2)]	Completed properties	Other	Total
	NIS millions				
Financing rate[(3)]					
Up to 45%	**2,078**	**-**	**4,442**	**-**	**6,520**
Over 45% up to 65%	**5,996**	**-**	**6,418**	**-**	**12,414**
Over 65% up to 85%	**15,458**	**-**	**6,394**	**-**	**21,852**
Over 85%	**384**	**-**	**432**	**-**	**816**
Absorption capacity[(4)]					
Up to 25%	**-**	**902**	**-**	**-**	**902**
Over 25% up to 50%	**-**	**12,621**	**-**	**-**	**12,621**
Over 50% up to 75%	**-**	**14,717**	**-**	**-**	**14,717**
Over 75%	**-**	**60,950**	**-**	**-**	**60,950**
Projects not yet started	**-**	**16,698**	**-**	**-**	**16,698**
Other[(5)]	**-**	**-**	**-**	**28,679**	**28,679**
Total credit risk before haircuts and deductions – Corporate Banking Division	**23,916**	**105,888**	**17,686**	**28,679**	**176,169**
Effect of haircuts and deductions	**-**	**-**	**-**	**-**	**(52,735)**
Total Corporate Banking Division credit risk	**-**	**-**	**-**	**-**	**123,434**

* Reclassified, mainly to separately state projects not yet started, of total real estate under construction.

(1) Segmentation into segments and financing rates was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process. Data as at September 30, 2022, are stated after improvement of the division of the credit portfolio into segments, which included reclassification of balances in respect of real estate in construction processes, which were included in "other credit" until the report date.

(2) "Real estate in construction processes" includes credit for projects in various stages of progress, such as purchasing groups; projects for which a financing agreement has been signed, but financing has not commenced due to non-attainment of preliminary conditions (absorption capacity is presented according to the minimum absorption capacity based on the financing terms approved); and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of credit risk at the balance sheet date, before the effect of haircuts and deductions, to the present value of the existing collateral at the report date, before the effect of haircuts. Financing rates do not weigh in risk hedging of credit balances backed by insurance acquired from reinsurers.

(4) The absorption capacity of the projects is the maximum possible rate of decline in the value of the asset as completed without the Bank incurring losses from the projects. The absorption capacity is based on the last known report at the report date, and does not weigh in risk hedging of credit balances secured by insurance acquired from reinsurers.

(5) "Other credit" is any credit that does not meet the definitions of one of the segments listed above. This item includes, for example, financing of infrastructure projects (PPP); financing against collateral other than real estate (such as deposits, shares, floating liens, third-party guarantees, and more); current credit against financial robustness; and more.

Table D-7: Risk of credit in the real-estate sector at the Corporate Banking Division in Israel, by financing rate (LTV) and absorption capacity[(1)] (continued)

	Balance as at December 31, 2021*				
	Land	Real estate in construction processes[(2)]	Completed properties	Other	Total
	NIS millions				
Financing rate[(3)]					
Up to 45%	3,373	-	2,993	-	6,366
Over 45% up to 65%	6,638	-	7,176	-	13,814
Over 65% up to 85%	14,335	-	7,008	-	21,343
Over 85%	501	-	633	-	1,134
Absorption capacity[(4)]					
Up to 25%	-	1,704	-	-	1,704
Over 25% up to 50%	-	18,187	-	-	18,187
Over 50% up to 75%	-	17,005	-	-	17,005
Over 75%	-	45,258	-	-	45,258
Projects not yet started	-	9,159	-	-	9,159
Other[(5)]	-	-	-	31,641	31,641
Total credit risk before haircuts and deductions – Corporate Banking Division	24,847	91,313	17,810	31,641	165,611
Effect of haircuts and deductions	-	-	-	-	(46,224)
Total Corporate Banking Division credit risk	-	-	-	-	119,387

* Reclassified, mainly to separately state projects not yet started, of total real estate under construction.

(1) Segmentation into segments and financing rates was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process. Data as at September 30, 2022, are stated after improvement of the division of the credit portfolio into segments, which included reclassification of balances in respect of real estate in construction processes, which were included in "other credit" until the report date.

(2) "Real estate in construction processes" includes credit for projects in various stages of progress, such as purchasing groups; projects for which a financing agreement has been signed, but financing has not commenced due to non-attainment of preliminary conditions (absorption capacity is presented according to the minimum absorption capacity based on the financing terms approved); and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of credit risk at the balance sheet date, before the effect of haircuts and deductions, to the present value of the existing collateral at the report date, before the effect of haircuts. Financing rates do not weigh in risk hedging of credit balances backed by insurance acquired from reinsurers.

(4) The absorption capacity of the projects is the maximum possible rate of decline in the value of the asset as completed without the Bank incurring losses from the projects. The absorption capacity is based on the last known report at the report date, and does not weigh in risk hedging of credit balances secured by insurance acquired from reinsurers.

(5) "Other credit" is any credit that does not meet the definitions of one of the segments listed above. This item includes, for example, financing of infrastructure projects (PPP); financing against collateral other than real estate (such as deposits, shares, floating liens, third-party guarantees, and more); current credit against financial robustness; and more.

Credit at financing rates greater than 85% constitutes approximately 2.0% of the total balance of completed properties and land at the Corporate Banking Division in September 2022, compared with 2.7% in December 2021. Credit with absorption capacity of up to 25% for real estate in construction processes constitutes approximately 1% of the total balance of real estate in construction processes at the Corporate Banking Division in September 2022, compared with 2.1% in December 2021.

Note that on May 22, 2022, the Banking Supervision Department issued an update of Directive 203 pursuant to which loans designated for the acquisition of land for the purpose of development or construction at a rate exceeding 80% of the value of the acquired asset (LTV) would be added to the list of debts risk weighted at 150%, excluding loans for the acquisition of agricultural land with no planning horizon or intention to apply for a change in designation, and excluding loans for the acquisition of land for the borrower's own use where the borrower is not categorized as being in the economic sector of construction and real estate, according to the sector classifications in Directive 831 concerning reporting on economic sectors. In this context, it should be noted that talks are underway with the Bank of Israel on several matters with regard to the manner of implementation of the directive, and that, inasmuch as further clarification is provided, it may affect the implementation method and increase the scope of the effect.

Management of credit risk in the construction and real-estate sectors

Exposure to the area of construction and real estate constitutes a substantial portion of the credit portfolio. The Bank 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, in addition to the regulatory limit established by the Bank of 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. As part of its management of exposure to this sector and compliance with the limit in this sector, the Bank uses tools such as syndication and the acquisition of insurance from rated foreign insurance companies recognized for the reduction of indebtedness pursuant to Proper Conduct of Banking Business Directive 313. In the second half of 2021 and in the first quarter of 2022, the Bank expanded the insurance for the portfolio of Sale Law guarantees and, for the first time, insured the portfolio of loans secured by a lien on land. Upon completion, this insurance allowed the Bank to reduce its exposure to the construction and real-estate sector (for further details, see Note 10A(4) to the Condensed Financial Statements and the footnotes to the table "Segmentation of credit risk in the construction and real-estate sectors by principal area of activity," above). The Bank may take additional measures in the future to continue to manage this limit and the exposure to this sector.

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.

Within the monitoring of the portfolio, changes and trends in various risk indicators are examined, including in comparison to 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 interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices. The Bank continues to examine the developments in the economy and consider adjustments accordingly. The Bank uses a 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.

Beginning in 2021, changes and trends in portfolio quality have been reflected in the Bank's calculations of the collective allowance for credit losses. The collective allowance coefficient in the construction and real-estate sector was adjusted in 2021 in light of the rapid growth of credit in this sector and the reliefs in credit underwriting. The addition to the allowance coefficient is updated quarterly, according to established methodology.

The allowance for credit losses in respect of the construction and real-estate sectors in Israel totaled approximately NIS 1,432 million as at September 30, 2022, compared with a total of approximately NIS 1,267 million as at December 31, 2021. The total allowance for credit losses as a percentage of credit to the public in the construction and real-estate sector in Israel as at September 30, 2022, is 1.94%, compared with 1.81% as at December 31, 2021. The calculation of the allowance includes an allowance in respect of the rapid increase in balances during 2021, and reflects a possible increase in risk. To reflect the potential risk, the Bank increased its allowance for credit losses in respect of the construction and real-estate sectors in Israel through qualitative adjustments. Accordingly, the allowance for credit losses and its percentage of credit to the public in the construction and real-estate sector in Israel are higher than in December 2021 and in the preceding two quarters, despite improvement in risk indicators for this portfolio.

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

Table D-8: 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, 2022			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Electricity supply	**1**	**1,012**	**1,159**	**2,171**
Construction and real estate – construction	**4**	**3,594**	**3,032**	**6,626**
Construction and real estate – civil engineering	**2**	**973**	**2,702**	**3,675**
Hotels, hospitality, and food services	**1**	**947**	**394**	**1,341**
Information and communications	**1**	**1,193**	**192**	**1,385**
Financial services	**14**	**16,578**	**11,084**	**27,662**
Industry	**2**	**1,247**	**3,687**	**4,934**
Water, sewage services, garbage and waste treatment, and purification services	**1**	**-**	**1,297**	**1,297**
Total	**26**	**25,544**	**23,547**	**49,091**

	December 31, 2021			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Electricity supply	1	2,157	1,227	3,384
Construction and real estate – construction	5	3,523	4,624	8,147
Construction and real estate – civil engineering	1	782	1,133	1,915
Hotels, hospitality, and food services	1	1,300	103	1,403
Information and communications	1	898	496	1,394
Water, sewage services, garbage and waste treatment, and purification services	1	158	1,306	1,464
Financial services	10	10,187	10,950	21,137
Industry	2	1,094	3,768	4,862
Total	22	20,099	23,607	43,706

Credit risk in respect of exposure to borrower groups

As at September 30, 2022, there is one group of borrowers at the Bank 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.

Table D-9: Credit risk balances[1] for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at September 30, 2022

	September 30, 2022						
	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments[2]	Gross indebtedness[3]	Deductions[4]	Net indebtedness[1]	Percentage of regulatory capital
	NIS millions						Percent
Borrower group A	**4,569**	**5,206**	**4,361**	**10,287**	**1,992**	**8,295**	**18.7%**

(1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

The indebtedness of the group noted in the table above was strongly influenced by the implementation of regulation concerning the measurement of indebtedness in respect of derivatives (SA-CCR) beginning this quarter.

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		Recorded debt balance in NIS millions	Rate of change during the period
	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 %		
Sep. 30, 2022	**31,929**	**25.3%**	**50,238**	**39.8%**	**13,828**	**11.0%**	**30,094**	**23.8%**	**132**	**0.1%**	**126,221**	**9.6%**
Dec. 31, 2021	27,672	24.0%	45,600	39.6%	13,610	11.8%	28,137	24.4%	147	0.1%	115,166	15.8%
Dec. 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%

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 past due, 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).

In general, the level of credit risk in the housing credit portfolio is low, as reflected in the indicators noted above. Note that the trend of rising interest rates, and to a lesser extent the increase in the consumer price index, have caused monthly payments to grow for many borrowers. This increase has not yet been reflected in portfolio quality indicators.

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, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021
Characteristics					
Financing rate over 60%	**42.0%**	41.8%	42.2%	41.0%	40.0%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.3%**	0.2%	0.1%	-	0.1%
Percentage with floating rates	**60.3%**	60.8%	59.6%	60.1%	60.4%
Percentage of all-purpose loans	**3.0%**	2.6%	2.7%	3.8%	4.5%
Loans for investment purposes as a percentage of total purchases of homes	**9.8%**	9.8%	11.2%	11.8%	11.1%
Principal planned for repayment after age 67 (excluding investments)	**9.7%**	9.2%	8.0%	8.2%	8.1%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**25.4**	25.1	24.6	24.6	24.6

The balance of housing loans grew by 2.2% in the third quarter of 2022, compared with the preceding quarter, a lower growth rate than in the preceding quarters. The more moderate growth rate of balances was influenced by the interest-rate increases, which reduced households' ability to buy homes and lowered purchases by investors.

Credit quality indicators showed an increase (worsening) in the third quarter of 2022 in financing rates over 60% (a slight increase); the indicator of payment to income ratios greater than 40%, although the rate remained very low; the percentage of all-purpose loans; loans with principal scheduled for repayment after the age of 67; and the average term to maturity of loans for purchases of homes. A minor decrease was recorded in the third quarter of 2022 in the percentage of loans executed at floating interest rates. The percentage of loans for investment purposes was stable.
Some of these indicators were influenced by a trend of sharp price increases over the last year, and by the increase in the interest rate.

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, 2022	December 31, 2021		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**2,553**	2,522	31	1.2%
Loans[1]	**24,272**	24,073	199	0.8%
Of which: bullet and balloon loans	**54**	43	11	25.6%
Credit for purchases of motor vehicles[2]	**3,341**	3,376	(35)	(1.0%)
Debtors in respect of credit-card activity	**5,064**	4,838	226	4.7%
Total balance sheet credit risk	**35,230**	34,809	421	1.2%
Off-balance sheet				
Off-balance sheet credit risk	**18,393**	17,743	650	3.7%
Total credit risk	**53,623**	52,552	1,071	2.0%

(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.

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, increased by approximately 0.6% in the first nine months of 2022 in comparison to December 31, 2021. Total balance sheet credit risk increased by approximately 1.2% in this period. Off-balance sheet credit risk increased by approximately 3.7%.

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 in respect of leveraged borrowers/leveraged transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table D-13: The Bank's exposures to leveraged financing, by economic sector of the borrower*

	September 30, 2022			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – real-estate activities	**2**	**1,142**	**266**	**1,408**
Hotels, hospitality, and food services	**1**	**240**	**-**	**240**
Mining and quarrying	**3**	**459**	**294**	**753**
Commerce	**1**	**350**	**-**	**350**
Financial services and insurance services	**1**	**651**	**-**	**651**
Industry	**1**	**423**	**-**	**423**
Total	**9**	**3,265**	**560**	**3,825**

	December 31, 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	3	326	329
Construction and real estate – real-estate activities	2	889	497	1,386
Hotels, hospitality, and food services	1	240	-	240
Commerce	2	600	-	600
Financial services and insurance services	1	641	-	641
Industry	1	425	-	425
Total	8	2,798	823	3,621

* Net of charge-offs and allowances for credit losses calculated on an individual basis, if any.

D.4. Credit risk mitigation: standardized approach disclosures

Table D-14: Credit risk mitigation

		September 30, 2022								
		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	**342,608**	**54,896**	**32,672**	**27,538**	**19,314**	**27,358**	**13,358**	**-**	**-**
2	Bonds	**86,073**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3	Total	**428,681**	**54,896**	**32,672**	**27,538**	**19,314**	**27,358**	**13,358**	**-**	**-**
4	Of which: non-accruing or past due by 90 days or more	**3,655**	**113**	**3**	**113**	**3**	**-**	**-**	**-**	**-**

		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 past due by 90 days or more	2,358	23	4	23	4	-	-	-	-

		December 31, 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	330,219	37,983	18,251	14,746	9,554	23,237	8,697	-	-
2	Bonds	67,455	-	-	-	-	-	-	-	-
3	Total	397,674	37,983	18,251	14,746	9,554	23,237	8,697	-	-
4	Of which: impaired or past due by 90 days or more	2,689	110	4	110	4	-	-	-	-

* Restated.

Table D-15: Standardized approach – exposures by asset type and risk weight[(1)(2)]

		September 30, 2022									
		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	**206,939**	**367**	**-**	**9**	**-**	**-**	**158**	**80**	**-**	**207,553**
2	Public-sector entities (PSE) other than the central government	**1,725**	**4,490**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,215**
3	Banks (including multilateral development banks (MDB))	**-**	**15,845**	**-**	**40**	**-**	**-**	**51**	**-**	**-**	**15,936**
4	Securities companies	**-**	**3,566**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,566**
5	Corporations	**-**	**13,596**	**-**	**11,089**	**-**	**-**	**131,908**	**123**	**-**	**156,716**
6	Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**51,926**	**24**	**-**	**-**	**51,950**
7	Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**9,522**	**-**	**-**	**-**	**9,522**
8	Secured by a residential property	**-**	**-**	**34,375**	**37,775**	**33,442**	**15,734**	**3,325**	**-**	**-**	**124,651**
9	Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**84,257**	**742**	**-**	**84,999**
10	Past-due loans	**-**	**-**	**-**	**-**	**-**	**-**	**1,482**	**962**	**-**	**2,444**
11	Other assets*	**3,822**	**-**	**-**	**-**	**-**	**-**	**10,241**	**1,169**	**343**	**15,575**
11A	* Of which: in respect of shares	**-**	**-**	**-**	**-**	**-**	**-**	**3,301**	**704**	**-**	**4,005**
12	Total	**212,486**	**37,864**	**34,375**	**48,913**	**33,442**	**77,182**	**231,446**	**3,076**	**343**	**679,127**

(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 600% beginning January 1, 2021, and at a rate of 300% beginning May 22, 2022. 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-15: Standardized approach – exposures by asset type and risk weight[(1)(2)] (continued)

		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	Past-due loans	-	-	-	-	-	-	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 600% beginning January 1, 2021, and at a rate of 300% beginning May 22, 2022. 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-15: Standardized approach – exposures by asset type and risk weight[1][2] (continued)

		December 31, 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	239,111	273	-	-	-	-	314	32	-	239,730
2	Public-sector entities (PSE) other than the central government	1,508	5,886	-	47	-	-	-	-	-	7,441
3	Banks (including multilateral development banks (MDB))	-	10,720	-	43	-	-	36	-	-	10,799
4	Securities companies	-	2,451	-	-	-	-	-	-	-	2,451
5	Corporations	-	6,415	-	5,428	-	-	122,684	222	-	134,749
6	Retail exposures to individuals	-	-	-	-	-	51,543	-	-	-	51,543
7	Loans to small businesses	-	-	-	-	-	9,578	-	-	-	9,578
8	Secured by a residential property	-	-	32,074	34,370	26,842	18,076	4,162	-	-	115,524
9	Secured by commercial real estate	-	-	-	-	-	-	90,834	-	-	90,834
10	Past-due loans	-	-	-	-	-	-	990	1,337	-	2,327
11	Other assets*	3,069	-	-	-	-	-	11,117	1,123	1,338	16,647
11A	* Of which: in respect of shares	-	-	-	-	-	-	2,993	657	-	3,650
12	Total	243,688	25,745	32,074	39,888	26,842	79,197	230,137	2,714	1,338	681,623

(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 600% beginning January 1, 2021, and at a rate of 300% beginning May 22, 2022. 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 203A, 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.

As of July 1, 2022, data referring to counterparty credit risk are calculated according to the SA-CCR approach.

For further details, see "Directives pertaining to capital allocation in respect of derivative financial instruments" in the section, "Capital and leverage."

Counterparty risk exposures:

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

		September 30, 2022					September 30, 2021			
		Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA	Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions								
1	Present exposure method	**4,284**	**12,302**	**1.4**	**23,220**	7,345	3,786	10,028	10,958	6,925
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	**-**	**-**	**-**	**-**	-	-	-	-	-
6	Total	**4,284**	**12,302**	**1.4**	**23,220**	7,345	3,786	10,028	10,958	6,925

		December 31, 2021			
		Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions			
1	Present exposure method	6,530	9,810	10,725	4,150
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	-
6	Total	6,530	9,810	10,725	4,150

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

		September 30, 2022		September 30, 2021		December 31, 2021	
		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	**23,220**	**4,269**	10,666	2,703	10,470	3,039

Table E-3: Standardized approach – exposures to counterparty credit risk based on the supervisory portfolio and risk weights

	September 30, 2022				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	**36**	**-**	**-**	**-**	**36**
Public-sector entities (PSEs) other than the central government	**-**	**608**	**-**	**-**	**608**
Banks (including multilateral development banks (MDB))	**-**	**4,304**	**19**	**-**	**4,323**
Securities companies	**-**	**14,870**	**-**	**-**	**14,870**
Corporations	**-**	**-**	**6**	**2,990**	**2,996**
Supervisory retail portfolios	**-**	**-**	**-**	**36**	**36**
Loans to small businesses	**-**	**-**	**-**	**53**	**53**
Secured by commercial real estate	**-**	**-**	**-**	**298**	**298**
Other assets	**-**	**-**	**-**	**-**	**-**
Total	**36**	**19,782**	**25**	**3,377**	**23,220**

	September 30, 2021				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	92	-	-	-	92
Public-sector entities (PSEs) other than the central government	-	453	-	-	453
Banks (including multilateral development banks (MDB))	-	2,990	-	-	2,990
Securities companies	-	1,469	-	-	1,469
Corporations	-	-	27	5,652	5,679
Supervisory retail portfolios	-	-	-	14	14
Loans to small businesses	-	-	-	34	34
Secured by commercial real estate	-	-	-	227	227
Other assets	-	-	-	-	-
Total	92	4,912	27	5,927	10,958

Table E-3: Standardized approach – exposures to counterparty credit risk based on the supervisory portfolio and risk weights (continued)

	December 31, 2021				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	130	-	-	-	130
Public-sector entities (PSEs) other than the central government	-	468	-	-	468
Banks (including multilateral development banks (MDB))	-	3,433	4	-	3,437
Securities companies	-	4,154	-	-	4,154
Corporations	-	-	-	1,655	1,655
Supervisory retail portfolios	-	-	-	501	501
Loans to small businesses	-	-	-	14	14
Secured by commercial real estate	-	-	-	366	366
Other assets	-	-	-	-	-
Total	130	8,055	4	2,536	10,725

Table E-4: Composition of collateral in respect of exposure to counterparty credit risk

	September 30, 2022					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	**-**	**26**	**-**	**820**	**-**	**-**
Cash – other currencies	**-**	**6,709**	**-**	**2,907**	**8,712**	**579**
Local sovereign debt	**-**	**851**	**-**	**-**	**-**	**6,666**
Other sovereign debt	**-**	**1,208**	**-**	**-**	**-**	**245**
Debt of government agency	**-**	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**-**	**294**	**-**	**-**	**-**	**2,886**
Shares	**-**	**-**	**-**	**-**	**-**	**-**
Other collateral	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**9,088**	**-**	**3,727**	**8,712**	**10,376**

Table E-4: Composition of collateral in respect of exposure to counterparty credit risk (continued)

	September 30, 2021					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	-	645	-	486	-	-
Cash – other currencies	-	2,160	-	2,428	914	-
Local sovereign debt	-	-	-	-	-	103
Other sovereign debt	-	-	-	-	-	361
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	503
Shares	-	50	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	2,855	-	2,914	914	967

	December 31, 2021					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
	NIS millions					
Cash – local currency	-	877	-	702	-	-
Cash – other currencies	-	3,913	-	3,261	3,267	-
Local sovereign debt	-	40	-	-	-	2,676
Other sovereign debt	-	653	-	-	-	53
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	1,108
Shares	-	131	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	5,614	-	3,963	3,267	3,837

With regard to locked-in capital in connection with SA-CCR, which will replace the existing approaches to Proper Conduct of Banking Business Directive 203, see the section "Directives pertaining to capital allocation in respect of derivative financial instruments" in the section "Capital and leverage," above.

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, 2021.

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 estimates 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.

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

	September 30, 2022	**Average in 2022 up to September 30, 2022**	December 31, 2021	Average in 2021
		NIS millions		
Total trading in dealing rooms	**53**	**38**	20	25

A backtesting procedure is performed routinely at the Bank in order to examine the validity of the risk-assessment model in the trading book. During the first nine months of the year, due to the volatility in the markets, particularly the exceptional volatility in the spread between the shekel interest rate and the dollar interest rate derived from the USD-NIS market, several deviations in the VaR model of the Bank were observed. Based on the number of deviations, according to the Basel Committee criteria, the model is in the yellow zone. The Bank tracks the performance of the model and updates it accordingly.

Table F-2: Sensitivity of the Bank 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, 2022		December 31, 2021	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	**(302)**	**287**	74	225
EUR	**(36)**	**59**	*27	*40
	3% increase	3% decrease	3% increase	3% decrease
CPI	**581**	**(590)**	529	(548)

* Restated.

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, 2022	September 30, 2021	December 31, 2021
		Risk-adjusted assets in NIS millions		
	Direct products			
1	Interest-rate risk (general and specific)	**3,363**	2,739	3,004
2	Share position risk (general and specific)	**-**	-	-
3	Exchange-rate risk	**1,375**	363	425
4	Commodity risk	**-**	-	-
	Options			
5	Simplified approach	**-**	-	-
6	Delta-plus approach	**920**	503	668
7	Scenario approach	**-**	-	-
8	Securitization	**-**	-	-
9	Total	**5,658**	3,605	4,097

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 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 – 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 in the various activity markets.

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 of the counterparty to 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 fair value of the financial instruments used by the Bank. The stress scenarios are calculated according to formulas defined in the Bank of Israel reporting requirements. The required scenarios are parallel scenarios in interest-rate curves, steepening (a decrease in the short-term interest rate and an increase in the long-term interest rate), and flattening (an increase in the short-term interest rate and a decrease in the long-term interest rate), as well as scenarios of 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, 2022					December 31, 2021				
	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**	**451,468**	**57,902**	**81,251**	**11,781**	**602,402**	470,057	60,262	72,412	10,721	613,452
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	**536,635**	**21,530**	**647,359**	**55,492**	**1,261,016**	393,246	20,899	301,262	60,616	776,023
Financial liabilities**	**400,495**	**32,914**	**125,370**	**14,728**	**573,507**	402,252	34,819	121,294	15,506	573,871
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	**575,124**	**24,781**	**605,747**	**53,149**	**1,258,801**	445,256	22,441	253,559	56,174	777,430
Net fair value of financial instruments	**12,484**	**21,737**	**(2,507)**	**(604)**	**31,110**	15,795	23,901	(1,179)	(343)	38,174
Effect of employee benefit liabilities	**-**	**(4,323)**	**-**	**-**	**(4,323)**	-	(5,030)	-	-	(5,030)
Effect of spreading over periods of on-demand deposits	**12,988**	**-**	**4,069**	**717**	**17,774**	4,386	-	1,617	236	6,239
Adjusted net fair value**	**25,472**	**17,414**	**1,562**	**113**	**44,561**	20,181	18,871	438	(107)	39,383
Of which: banking book	**25,259**	**17,679**	**1,446**	**228**	**44,612**	20,317	18,508	193	(38)	38,980

* 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, 2022					December 31, 2021				
	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	**425**	**(724)**	**91**	**20**	**(188)**	1,027	(585)	86	141	669
Of which: banking book	**455**	**(726)**	**123**	**22**	**(126)**	992	(578)	91	142	647
1% parallel decrease	**(374)**	**759**	**(91)**	**(30)**	**264**	(1,032)	582	(92)	(62)	(604)
Of which: banking book	**(394)**	**758**	**(127)**	**(32)**	**205**	(1,005)	575	(98)	(59)	(587)
Non-parallel changes										
Steepening[(1)]	**(141)**	**(82)**	**134**	**39**	**(50)**	(235)	(11)	(77)	35	(288)
Of which: banking book	**(141)**	**(81)**	**97**	**38**	**(87)**	(215)	(14)	(81)	36	(274)
Flattening[(2)]	**299**	**(58)**	**(126)**	**(41)**	**74**	542	(106)	74	(7)	503
Of which: banking book	**305**	**(59)**	**(82)**	**(40)**	**124**	514	(101)	77	(9)	481
Increase in short-term interest rate	**420**	**(350)**	**(103)**	**(30)**	**(63)**	877	(341)	61	35	632
Of which: banking book	**436**	**(352)**	**(50)**	**(28)**	**6**	839	(334)	63	33	601
Decrease in short-term interest rate	**(426)**	**350**	**110**	**22**	**56**	(883)	337	(60)	(33)	(639)
Of which: banking book	**(443)**	**352**	**56**	**20**	**(15)**	(846)	330	(62)	(31)	(609)

* 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, 2022			December 31, 2021		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS	Foreign currency
	NIS millions					
Parallel changes						
1% parallel increase	**(185)**	**(1,066)**	**17**	528	(945)	162
1% parallel decrease	**293**	**1,181**	**(18)**	(445)	1,040	(166)

The change in sensitivity of economic value in the unlinked segment in the first three quarters of 2022 mainly resulted from an update of parameters of mortgage prepayments, as a result of the increase in the interest rate in Israel, and from continued activity of granting mortgages and credit, bond purchases, and an increase in activity in interest-rate derivatives, partly offset by bond issuance and an increase in deposits. The increase in sensitivity of economic value in the linked segment mainly resulted from an update of parameters of mortgage prepayments, as a result of the increase in the interest rate in Israel, and from mortgage granting and shorter term of issues, partly offset by bond issuance. 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 0.3 billion in the unlinked segment and approximately NIS 0.3 billion in the CPI-linked segment.

Table F-7: Effect of scenarios of changes in interest rates on net interest income and on non-interest financing income

	September 30, 2022			December 31, 2021		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**1,128**	**(354)**	**774**	1,391	(12)	1,379
Of which: banking book	**1,128**	**(292)**	**836**	1,391	(37)	1,354
1% parallel decrease	**(2,089)**	**332**	**(1,757)**	(716)	(57)	(773)
Of which: banking book	**(2,089)**	**276**	**(1,813)**	(716)	(41)	(757)

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 may fall to zero. In the foreign-currency segment, the interest-rate curve may fall to the lower of zero or the negative interest rate posted by the central bank. 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 and the increase in the interest rate, which increased the distance from the interest-rate floor. In the third quarter, the Bank conducted activity in interest-rate derivatives aimed at mitigating sensitivity to changes in interest rates of the income of the Bank. Income sensitivity is a theoretical estimate referring to the stable income in the present interest-rate environment. In light of the increase in the interest rate, the Bank is examining the behavioral assumptions underlying the estimate.

Interest-rate curves continued to rise in the third quarter of 2022, particularly interest rates of the central banks in Israel and the United States, and there are expectations of a continued process of increases in the interest rates of the central banks. The increase in interest-rate curves affects economic value, as detailed in the economic value sensitivity table above. The increase in short-term interest rates, particularly the interest rates of the central banks, has a positive effect on the income of the Bank over time, as detailed in the income sensitivity table above. However, the increase in interest-rate curves has a negative effect on the shareholders' equity of the Bank, due to the decrease in value of the available-for-sale bond portfolio (offset by the change in value of employee benefit liabilities), as in contrast to economic value sensitivity, which takes into consideration all of the financial instruments in the Bank's balance sheet, shareholders' equity is only influenced by some of these instruments. For details, see the section "Capital adequacy," above. To mitigate the effect of future changes in interest rates on the shareholders' equity of the Bank, bonds in the amount of approximately NIS 3.5 billion (in shekel and foreign currency) were transferred from the available-for-sale portfolio to the held-to-maturity portfolio during the first quarter; during the second and third quarters, the Bank also continued its activity in the held-to-maturity portfolio.

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.

Table G-1: Liquidity coverage ratio (LCR) – limited banking corporation and consolidated subsidiaries

	For the quarter ended September 30, 2022	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**189,487**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**253,302**	**20,366**
Stable deposits	**81,798**	**4,090**
Less stable deposits	**133,922**	**15,149**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**37,582**	**1,127**
Unsecured wholesale financing, of which:	**195,269**	**128,999**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**2,844**	**711**
Non-operational deposits (all counterparties)	**191,988**	**127,850**
Unsecured debts	**437**	**438**
Secured wholesale financing	**2,615**	**390**
Additional liquidity requirements, of which:	**113,877**	**18,378**
Outflows related to derivative exposure and other collateral requirements	**20,612**	**8,412**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**93,265**	**9,966**
Other contractual funding obligations	**9,237**	**9,237**
Other contingent funding obligations	**77,251**	**1,976**
Total cash outflows	**-**	**179,346**
Cash inflows		
Secured lending (e.g. reverse repos)	**1,246**	**852**
Inflows from fully performing exposures	**35,314**	**20,673**
Other cash inflows	**11,514**	**6,993**
Total cash inflows	**-**	**28,518**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**189,487**
Total net cash outflows	**150,828**
Liquidity coverage ratio (%)	**126%**

* 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 (LCR) – limited banking corporation and consolidated subsidiaries (continued)

	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 (LCR) – limited banking corporation and consolidated subsidiaries (continued)

	For the quarter ended December 31, 2021	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)	-	205,777
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	240,538	19,695
Stable deposits	80,211	4,011
Less stable deposits	129,684	14,765
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	30,643	919
Unsecured wholesale financing, of which:	203,688	137,044
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,644	661
Non-operational deposits (all counterparties)	200,602	135,941
Unsecured debts	442	442
Secured wholesale financing	1,014	2
Additional liquidity requirements, of which:	115,261	19,971
Outflows related to derivative exposure and other collateral requirements	12,179	8,144
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	103,082	11,827
Other contractual funding obligations	6,544	6,544
Other contingent funding obligations	67,243	1,988
Total cash outflows	-	185,244
Cash inflows		
Secured lending (e.g. reverse repos)	1,678	1,212
Inflows from fully performing exposures	24,833	13,418
Other cash inflows	9,764	4,932
Total cash inflows	-	19,562

	Total adjusted value***
Total high-quality liquid assets (HQLA)	205,777
Total net cash outflows	165,682
Liquidity coverage ratio (%)	124%

* 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 66.

*** 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 liquidity coverage ratio during the third quarter of 2022 (the average of the daily observations) is 126% consolidated and 125% for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the third quarter of 2022 increased in comparison to the liquidity coverage ratio in the fourth quarter of 2021, due to an increase in deposits of private customers and a decrease in deposits of financial customers, and due to funding in the capital market. In view of the volatility in the markets, particularly stock markets in the United States and in Israel and the NIS-foreign currency swap market, the Bank is maintaining high liquidity levels.

The net stable financing ratio at the end of the third quarter of 2022 is 127%, consolidated, while the minimum requirement is 100%. The net stable financing ratio decreased in comparison to the ratio as at December 31, 2021, due to a decrease in wholesale funding and an increase in credit and financing needs in respect of derivative instruments.

The liquid assets of the Bank mainly consist of Israeli government bonds in NIS and in foreign currency, United States government bonds in foreign currency, and deposits with central banks (the Bank of Israel and the Federal Reserve). The Bank manages the liquidity coverage ratio, and accordingly its liquid assets, separately in 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 have 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.

Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries

	September 30, 2022				
	Unweighted value by term to maturity				Weighted value
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
Available stable financing (ASF) items					
Capital:	-	-	-	**59,128**	**59,128**
Supervisory capital	-	-	-	**59,128**	**59,128**
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	**230,115**	**8,305**	**12,753**	**231,731**
Stable deposits	-	**86,408**	**1,565**	**4,583**	**88,158**
Less stable deposits	-	**143,707**	**6,740**	**8,170**	**143,573**
Wholesale funding:	-	**227,119**	**9,964**	**4,397**	**72,881**
Operational deposits	-	-	-	-	-
Other wholesale funding	-	**227,119**	**9,964**	**4,397**	**72,881**
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	**40,053**	**5,549**	**28,806**	**34,225**
NSFR derivative liabilities			**1,698**		
All other liabilities and equity not included in the above categories	-	**38,355**	**5,549**	**28,806**	**34,225**
Total available stable financing (ASF)	-	**497,287**	**23,818**	**105,084**	**397,965**
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	**143,245**	**9,128**	**56,836**	**6,838**
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	**79,631**	**35,926**	**253,497**	**266,242**
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	**4,413**	**3,005**	**7,784**	**9,948**
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	**69,089**	**29,611**	**120,808**	**151,098**
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	**12,094**	**8,200**	**4,697**	**13,200**
Performing residential mortgages, of which:	-	**3,285**	**3,276**	**119,674**	**98,964**
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	**1,193**	**1,188**	**30,194**	**20,817**
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	**2,844**	**34**	**5,231**	**6,232**
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	**25,108**	**103**	**9,677**	**31,407**
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			**803**		**683**
NSFR derivative assets			**9,724**		**8,026**
NSFR derivative liabilities before deduction of variation margin posted			**356**		**356**
Others	-	**14,225**	**103**	**9,677**	**22,342**
Off-balance sheet items			**182,206**		**8,332**
Total required stable financing (RSF)					**312,819**
Net stable financing ratio (NSFR) (%)					**127%**

* Items reported in the column "no maturity date" are items with no stated maturity date. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities, and physically traded commodities.

Table G-2: Net stable financing ratio (NSFR), limited banking corporation and consolidated subsidiaries (continued)

	December 31, 2021**				
	Unweighted value by term to maturity				Weighted value
	No maturity date*	Up to 6 months	6 months to 1 year	1 year or more	
Available stable financing (ASF) items					
Capital:	-	-	-	47,499	47,499
Supervisory capital	-	-	-	47,499	47,499
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	226,110	4,654	9,959	221,964
Stable deposits	-	84,898	1,428	4,014	86,024
Less stable deposits	-	141,212	3,226	5,945	135,940
Wholesale funding:	-	248,294	12,185	6,264	78,685
Operational deposits	-	-	-	-	-
Other wholesale funding	-	248,294	12,185	6,264	78,685
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	22,970	8,117	35,077	41,480
NSFR derivative liabilities			1,182		
All other liabilities and equity not included in the above categories	-	21,788	8,117	35,077	41,480
Total available stable financing (ASF)	-	497,374	24,956	98,799	389,628
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	191,419	2,517	46,335	7,008
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	62,298	38,201	239,224	247,343
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	3,629	2,280	7,439	9,124
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	54,333	32,624	120,721	145,258
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	10,290	8,306	4,169	12,008
Performing residential mortgages, of which:	-	3,221	3,227	108,678	90,103
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,195	1,157	27,485	19,042
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	1,115	70	2,386	2,858
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	19,538	103	7,092	24,029
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			1,274		1,083
NSFR derivative assets			5,136		3,954
NSFR derivative liabilities before deduction of variation margin posted			297		297
Others	-	12,831	103	7,092	18,695
Off-balance sheet items			182,618		8,326
Total required stable financing (RSF)					286,706
Net stable financing ratio (NSFR) (%)					136%

* Items reported in the column "no maturity date" are items with no stated maturity date. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities, and physically traded commodities.

** Restated.

The Bank is in compliance with all regulatory and internal liquidity limits, including, among others, the LCR according to Proper Conduct of Banking Business Directive 221, the internal LCR model for thirty days and for shorter and longer ranges, and the NSFR (net stable financing ratio) model. In accordance with Proper Conduct of Banking Business Directive 221, as at September 30, 2022, 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 183.5 billion, in addition to liquid bonds not recognized for the purposes of the calculation of liquid 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-3: Details of liquid assets, by level, as required in the Basel directives

	Balance as at September 30, 2022	**Average in the quarter ended September 30, 2022**
	NIS millions	
Level 1 assets	**181,851**	**188,087**
Level 2A assets	**1,458**	**1,254**
Level 2B assets	**153**	**146**
Total HQLA	**183,462**	**189,487**

	Balance as at September 30, 2021	Average in the quarter ended September 30, 2021
	NIS millions	
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 December 31, 2021	Average in the quarter ended December 31, 2021
	NIS millions	
Level 1 assets	217,008	203,731
Level 2A assets	1,623	1,837
Level 2B assets	207	209
Total HQLA	218,838	205,777

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 units for information systems security and cyber defense, business continuity management, security, the Chief Compliance Officer, management of human resources, process control, and more.

For additional information regarding operational risk and the management thereof, including information-technology risks, information security and cyber risks, cloud-computing risks, emergency preparedness, and insurance, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2021.

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 risk of a breach of international sanctions and lists of designated parties. Addressing this risk involves monitoring, analyzing, and applying international sanctions and lists of designated parties, monitoring international money transfers, and monitoring the opening of customer accounts and banking activity therein. The Bank applies sanctions in accordance with the established policy.

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 correspondent services to these banks.

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 2022, the Bank was provided with an updated letter of indemnity valid until March 31, 2023. The letter of immunity was also extended until March 31, 2023.

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, 2021.

For further details regarding the resolutions with the United States authorities in connection with the tax investigation and the FIFA affair, see Note 10C to the Condensed Financial Statements.

J. Legal risk

Legal risk comprises, 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 contingent liabilities and special commitments, see Note 10 to the Condensed Financial Statements.

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, 2021.

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 loss of customers, 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, 2021.

L. Regulatory risk

Regulatory risk refers to regulatory directives that are not yet in effect, and is reflected in two main aspects:

- Lack of preparation for the implementation of a directive, or partial preparation for the implementation of a binding regulatory directive.
- A heavier regulatory burden that may impair the ability of the Bank to meet its obligations, realize and maximize its business objectives, or offer and deliver certain banking services, and/or may require preparation for complex and lengthy implementation and resource-intensive technological and other investments involving significant costs.

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.

For additional information regarding regulatory risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2021.

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 economic conditions, in Israel and globally, including the economic policies accompanying the spread of the coronavirus and the effects of the war in Ukraine, 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, 2021.

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.

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, 2021.

O. Environmental risk

Based on the definitions of the Network for Greening the Financial System (NGFS) and the respective definitions of the Banking Supervision Department at the Bank of Israel, the term environmental risks refers to risks that derive from the exposure of a financial institution and/or the financial sector to activities that have the potential to cause environmental degradation, such as air and water pollution, ground pollution, loss of biodiversity, deforestation, and loss of ecosystems, or to be affected by such harm.

The prominence of climate change as a global issue has also grown in recent years. Climate change creates harmful effects and risks referred to as climate risks. While there is some connection and overlap between climate risks and environmental risks in the classic sense referred to above, they are not identical. According to the NGFS, and subsequently the Banking Supervision Department in Israel, climate risks for a financial institution are risks arising from its exposure to risks caused by or related to climate change:

- Physical risks – Risks resulting from acute climate events, such as floods, storms, heat/cold waves, and wildfires, and/or chronic climate processes, such as rising temperatures, decreasing precipitation and desertification, rising sea levels, and others.
- Transition risks – Risks that arise due to disruptions caused in the process of transforming and adapting the global economy as required, according to scientific consensus and the Paris Agreement of 2016, to fight the sources of climate change, from an economy based on carbon dioxide and other greenhouse gas emission intensive activities to a low/zero emissions economy. Factors driving this process are changes in regulation, legislation, and government policies; technological changes; market changes and changes in consumer preferences; changes in the area of litigation; and more.

For the banking system, climate risks may be reflected in the fundamental financial risks accompanying the routine operations of a bank, such as credit risk, market risk, operational risk, liquidity risk, and other risks, through various economic transmission channels, which may have an adverse effect on the financial robustness of businesses, households, and the economy in general, as well as other risks to banks such as reputational risk, regulatory risk, legal risk, and more.

For key and strategic indicators in the area of the environment and climate, see the section "Key environmental, social, and governance (ESG) indicators" in the Report of the Board of Directors and Board of Management in the Annual Financial Statements for 2021.

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, 2021.

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 inappropriate use of model outputs. The sources of this risk are possible deficiencies in input data, development methodology, technological implementation, and business use.

The increase in uncertainty in the markets and additional changes in macroeconomic factors may affect model risk.

For additional information regarding model risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2021.