Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at March 31, 2023

Q1

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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 March 31, 2023.
The information in this report, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations.

This Report on Risks is published within the financial reporting of Bank Hapoalim B.M., and contains information regarding the management of risks and capital. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022, and the Condensed Financial Statements as at March 31, 2023.

Sincerely yours,

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

Tel Aviv, May 21, 2023

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 March 31, 2023.

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				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
	NIS millions				
Available capital					
Common equity Tier 1 capital	**48,241**	46,745	45,262	44,446	43,494
Common equity Tier 1 capital before effect of transitional directives(1)	**47,935**	46,330	44,830	43,996	43,026
Tier 1 capital	**48,241**	46,745	45,262	44,446	43,494
Tier 1 capital before effect of transitional directives(1)	**47,935**	46,330	44,830	43,996	43,026
Total capital	**61,704**	61,094	58,514	57,619	56,231
Total capital before effect of transitional directives(1)	**61,408**	60,704	58,103	57,218	55,771
Risk-weighted assets					
Total risk-weighted assets (RWA)	**424,532**	415,577	407,914	398,865	389,452
Total risk-weighted assets (RWA) before effect of transitional directives(1)	**425,346**	417,603	409,587	402,830	390,060
Capital-adequacy ratios according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	**11.36%**	11.25%	11.10%	11.14%	11.17%
Common equity Tier 1 capital ratio before effect of transitional directives(1)	**11.27%**	11.09%	10.95%	10.92%	11.03%
Tier 1 capital ratio	**11.36%**	11.25%	11.10%	11.14%	11.17%
Tier 1 capital ratio before effect of transitional directives(1)	**11.27%**	11.09%	10.95%	10.92%	11.03%
Total capital ratio	**14.53%**	14.70%	14.34%	14.45%	14.44%
Total capital ratio before effect of transitional directives(1)	**14.44%**	14.54%	14.19%	14.20%	14.30%
Common equity Tier 1 capital ratio required by the Banking Supervision Department(2)	**10.23%**	10.23%	10.23%	10.23%	10.23%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department(2)	**1.13%**	1.02%	0.87%	0.91%	0.94%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures	**738,726**	737,115	732,928	720,777	710,706
Total exposures before effect of transitional directives(1)	**738,885**	737,330	733,152	721,069	710,949
Leverage ratio	**6.53%**	6.34%	6.18%	6.17%	6.12%
Leverage ratio before effect of transitional directives(1)	**6.49%**	6.28%	6.11%	6.10%	6.05%

(1) 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				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	**173,662**	179,514	189,487	195,054	202,455
Total net cash outflows	**136,279**	147,712	150,828	154,857	165,269
Liquidity coverage ratio (in %)	**127%**	122%	126%	126%	123%

	On a consolidated basis, as at				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Net stable financing ratio according to the directives of the Banking Supervision Department					
Total available stable financing	**410,435**	412,150	397,965	403,331	394,746
Total required stable financing	**323,578**	316,321	312,819	305,916	294,609
Net stable financing ratio (%)	**127%**	130%	127%	132%	134%

B.2. Risk assessment and management

The Bank performs a comprehensive examination to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, compliance risk, and model risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk (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 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. I. Furman, 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, 2022.

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 are currently increasing the economic risks to which it is exposed. While global inflation has started to fall, it is still high and remains far from the inflation targets of the central banks; the central banks are applying restrictive policies. Globally, rising interest rates have led to adjustments of financial and non-financial asset prices; the prevailing market assessment is now that global growth will slow considerably in the coming quarters. The war in Ukraine continues, and presents another ongoing risk, although the impacts on the European economy thus far have been more moderate than previously estimated. The increase in interest rates of the central banks in Israel and the United States has the potential to contribute positively to the results of operations of the Bank. However, a prolonged high interest-rate environment as well as more aggressive increases in the interest rate, combined with a decline in tax revenues and a higher budget deficit, may, among other matters, raise the risks of recession, lead to changes in asset prices (including financial and real-estate assets), lower the level of liquidity in the economy, affect the condition of customers of the Bank, and, accordingly, have a negative effect on the results of operations and profits of the Bank.

  The rapid rise in interest rates, accompanied by rising credit risks in sectors such as real estate, led to damage to the present value of long-duration assets, particularly bond portfolios; erosion of the financial spreads of banks that held such assets at significant volumes; and substantial harm to several regional banks in the United States. For example, Silicon Valley Bank (SVB) accumulated heavy losses in the value of its bond portfolio, and an accelerated outflow of deposits began. The bank was sold under the auspices of the United States regulator, with full activation of deposit insurance. Signature Bank and First Republic Bank also ceased operations. In addition, the Swiss bank Credit Suisse was merged into UBS, with one tranche of debt written down due to weakness in internal controls, losses, and liquidity loss. Central banks intervened in the markets to avert a liquidity crisis, and worries over a global banking crisis grew. If the intervention is ineffective and/or global liquidity levels are significantly impaired, these events may affect the ability of global banks to grant credit, and thereby exert a negative effect on the economy. The bank failures up to this point have no material negative effect on Bank Hapoalim.

  Legislation promoted by the government aimed at implementing changes of the judicial system has led to a broad wave of public and social protests, which are still ongoing. The legislative procedure has been placed on hiatus, and negotiations are currently underway between the coalition and some opposition parties in an attempt to reach agreements. The credit rating agency Moody's has lowered its debt rating outlook for the State of Israel from Positive to Stable, but kept the rating itself at A1. Moody's cited the promotion of the legislation for changes in the judicial system without attaining a broad consensus over the measures as the reason for the downgrade. The credit rating agency S&P reiterated its AA- credit rating for Israel, with Stable outlook, based on its estimate that, in the central scenario, a compromise would be attained that would reduce social tensions. Accordingly, if the legislative procedure is promoted without a broad consensus, it may have negative impacts on the Israeli economy, the customers of the Bank, and the Bank itself. At this stage, it is difficult to predict the outcome of the talks and the future of the legislation.

Due to the economic uncertainty, the risks in the global economy, and the slowdown in some countries and global sectors, particularly the high-tech industry, activity in some economic sectors has contracted, notably exports of technology industries and new investments in technology companies, as well as a deceleration in private consumption and a decrease in purchases of homes. These trends may lead to a slower pace of lending and an increase in 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, transition to cloud computing, and increased digitization of the activity of the Bank, including an increase in remote work with customers, concurrently with an increase in threats and attempted attacks on the Bank and its customers, 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; additional regulatory initiatives are in the process of being generated, some of which concern direct intervention in prices and interest rates in the banking industry. The regulatory initiatives and trends 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 adaptation 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 recently formulated 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 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 the Corporate Governance Report.

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 has continued to act to replace the legal agreements with the customers and convert the products, by June 2023 and/or by the first interest-rate change date after that 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 additional details, see Note 1D to the Condensed Financial Statements.

B.5. Review of weighted risk-adjusted assets

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

		Risk-weighted assets		Minimum capital requirements*
		March 31, 2023	December 31, 2022	**March 31, 2023**
		NIS millions		
1	Credit risk (standardized approach)**	**371,309**	367,207	**50,127**
6	Counterparty credit risk (standardized approach)	**8,855**	7,231	**1,195**
10	Credit valuation adjustment (CVA)	**4,572**	3,786	**617**
15	Settlement risk	**-**	-	**-**
16	Securitization exposures (standardized approach)	**13**	13	**2**
25	Amounts below deduction thresholds (subject to 250% risk weight)	**8,533**	8,313	**1,152**
	Total credit risk	**393,282**	386,550	**53,093**
20	Market risk (standardized approach)	**5,180**	4,007	**699**
24	Operational risk	**26,070**	25,020	**3,519**
27	Total	**424,532**	415,577	**57,311**

* 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

		March 31, 2023	March 31, 2022	December 31, 2022
		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	**8,213**	8,200	8,212
2	Retained earnings, including dividends proposed or declared after the balance sheet date	**42,829**	37,407	41,346
3	Accumulated other comprehensive income and disclosed retained earnings	**(2,927)**	(2,377)	(3,056)
6	Common equity Tier 1 capital before supervisory adjustments and deductions	**48,115**	43,230	46,502
	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	**4**	16	4
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	**22**	16	17
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	**(152)**	(296)	(264)
26C	Of which: additional supervisory adjustments to common equity Tier 1 capital	**(152)**	(296)	(264)
26C	Of which: in respect of the efficiency plans	**(123)**	(194)	(141)
26C	Of which: in respect of wage tax	**-**	-	-
26C	Of which: in respect of the business of the corporation with related persons	**127**	143	123
26C	Of which: in respect of expected credit losses	**(183)**	(274)	(274)
26C	Of which: in respect of non-accruing housing loans	**27**	29	28
28	Total supervisory adjustments and deductions in common equity Tier 1 capital	**(126)**	(264)	(243)
29	Common equity Tier 1 capital	**48,241**	43,494	46,745
45	Tier 1 capital	**48,241**	43,494	46,745

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

		March 31, 2023	March 31, 2022	December 31, 2022
		NIS millions/percent		
	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	**5,431**	4,131	5,281
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**3,116**	4,071	4,236
50	Collective allowances for credit losses before the effect of related tax	**4,916**	4,535	4,832
51	Tier 2 capital before deductions	**13,463**	12,737	14,349
	Tier 2 capital – deductions			
57	Total supervisory adjustments to Tier 2 capital	**-**	-	-
58	Tier 2 capital	**13,463**	12,737	14,349
59	Total capital	**61,704**	56,231	61,094
	Risk-weighted assets			
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**424,069**	388,577	415,256
	Of which: credit risk assets	**392,819**	361,920	386,229
	Of which: market risk assets	**5,180**	3,693	4,007
	Of which: operational risk assets	**26,070**	22,964	25,020
60	Total risk-weighted assets	**424,532**	389,452	415,577
	Capital ratios and capital preservation cushions			
61	Common equity Tier 1 capital	**11.36%**	11.17%	11.25%
62	Tier 1 capital	**11.36%**	11.17%	11.25%
63	Total capital	**14.53%**	14.44%	14.70%
	Minimum requirements established by the Banking Supervision Department			
69	The required minimum common equity Tier 1 capital ratio is 10%. 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%**	10.23%	10.23%
71	The required minimum total capital ratio is 13.5%	**13.50%**	13.50%	13.50%
	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	**473**	1,391	480
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	**106**	217	105
75	Deferred tax assets arising from timing differences, below the deduction threshold	**3,466**	3,710	3,436
	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	**5,549**	4,680	5,198
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	**4,916**	4,535	4,832

C.2. Capital adequacy

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

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

The capital measurement and adequacy 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 the forth 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; this pillar requires quantitative and qualitative disclosure within the report to the public on the risks to which the bank is exposed, in order to estimate the extent of the bank's exposure to risk factors.

The Basel Committee on Banking Supervision is applying updates to the framework for capital-adequacy measurement, sometimes referred to as "Basel 4." Significant updates have been established in connection with the method of calculating risk-adjusted assets in respect of which capital requirements are required to be calculated in Pillar 1. The standards included in the update are expected to be implemented in the European Union in 2025.

In accordance with its policy of adopting prevalent international standards, the Banking Supervision Department has adopted the directives of the Basel Committee of 2017 on the subject of the calculation of credit requirements in respect of operational risk. On December 29, 2022, the Banking Supervision Department issued a draft update of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk." The draft establishes an updated definition for the calculation of the capital allocation in respect of operational risk, such that it is based, among other things, on components of the business indicator described in the draft and on an internal loss multiplier based on the average historical losses of the banking corporation. Pursuant to the draft, implementation of the directive will begin on January 1, 2026.

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 March 31, 2023, 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, plans are in place for preparedness to 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 yield curve and in the credit risk spread is estimated at a decrease in the amount of approximately NIS 0.8 billion and approximately NIS 0.6 billion, respectively. By contrast, 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.

Capital requirements in respect of the exposures of the Bank to the government of Israel, Israeli banks, institutional entities, and public-sector entities are derived from the rating of the State of Israel.

The direct effect of a downgrade of the credit rating of the State of Israel by Standard & Poor's Rating Group, if it occurs, would lead to a reduction of 0.22% and 0.28% in the Tier 1 capital ratio and the total capital ratio, respectively.

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. 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, including the strategy of the Bank.

The dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit.

At the date of approval of these financial statements, with due attention to the financial results, the capital needs of the Bank, and the aforesaid distribution policy, the Board of Directors of the Bank resolved to declare the distribution of dividends in the amount of NIS 803 million, constituting approximately 40% of the net profit of the Bank for the first quarter of 2023, to be paid on June 14, 2023.

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 from 2020 to which the reliefs apply is NIS 352 million, net of tax effect.

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 0.03% as at March 31, 2023.

The subsidiary of the Bank in Turkey

The Bank Group holds 100% of the share capital of Bank Pozitif, in Turkey, which is engaged in corporate banking. In accordance with the strategy of the Bank, the Bank is acting to sell its holding in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

On March 30, 2023, the Bank entered into an agreement for the sale of its holding in Bank Pozitif, for a consideration primarily consisting of repayment of credit granted to Bank Pozitif at the time of completion of the transaction (if completed). No material effect on the financial statements of the Bank is expected. The transaction is subject to the receipt of regulatory approvals (one of which was received in May 2023); there is no certainty that the approvals will be received, and there is no certainty that the transaction will be completed, also taking into consideration the economic situation in Turkey and the circumstances of Bank Pozitif.

In accordance with the requirement of the Banking Supervision Department, risk-adjusted assets in respect of the subsidiary were weighted at a rate of 300%.

The Bank also has a credit line for Bank Pozitif, which 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 November 2022, in the amount of approximately NIS 35 million, for the earlier of twelve months or until the date when the Bank ceases to be a shareholder of Bank Pozitif. As at the end of March 2023, approximately NIS 18 million of the credit line is utilized.

The aforesaid effects, in total, on the common equity Tier 1 capital ratio of the Bank as at March 31, 2023, amount to a reduction of 0.04%.

Notes with a loss-absorption mechanism

For additional information regarding the subordinated notes, see Note 9K to the Condensed Financial Statements.

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. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular. As at March 31, 2023, the effect of the implementation of the circular is an increase in risk-adjusted assets in the amount of approximately NIS 2.9 billion, which constitutes a decrease of 0.08% and 0.11% in the common equity Tier 1 capital ratio and the total capital ratio, respectively. The effect of the circular, excluding implementation of the transitional directives, leads to an additional future decrease of approximately 0.01% and 0.01% in the common equity Tier 1 capital ratio and the total capital ratio, respectively.

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 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

	March 31, 2023	March 31, 2022	December 31, 2022
		NIS millions	
Total consolidated assets as per published financial statements	**666,665**	637,625	665,353
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	**2,232**	(1,757)	801
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**69,133**	70,565	70,140
Other adjustments	**696**	4,273	821
Exposure for the purposes of the leverage ratio	**738,726**	710,706	737,115

Table C-3: Leverage ratio disclosure

	March 31, 2023	March 31, 2022	December 31, 2022
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**625,718**	620,539	628,537
Asset amounts deducted in determining Tier 1 capital	**(4)**	(16)	(4)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**625,714**	620,523	628,533
Derivative exposures			
Replacement cost associated with all derivatives transactions	**7,284**	3,219	5,142
Add-on amounts for potential future exposure associated with all derivatives transactions	**18,653**	11,537	17,491
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	**-**	(2,639)	-
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	**25,937**	12,117	22,633
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**17,942**	7,501	15,809
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	**17,942**	7,501	15,809
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**210,052**	216,970	210,369
Adjustments for conversion to credit equivalent amounts	**(140,919)**	(146,405)	(140,229)
Off-balance sheet items	**69,133**	70,565	70,140
Capital and total exposures			
Tier 1 capital*	**48,241**	43,494	46,745
Total exposures*	**738,726**	710,706	737,115
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**6.53%**	6.12%	6.34%
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 9H to the Condensed Financial Statements). The effect of the relief in respect of the efficiency plans on the leverage ratio as at March 31, 2023, 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 current expected credit losses, which are to be gradually reduced until December 31, 2024. The effect of the relief in respect of current expected credit losses as at March 31, 2023, is estimated at an additional future decrease of approximately 0.03%.

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.

Table D-1: Credit risk indicators

	As at							
	March 31, 2023				December 31, 2022			
	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	**1.06%**	**0.51%**	**0.67%**	**0.85%**	1.15%	0.45%	0.60%	0.87%
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	**1.10%**	**0.51%**	**0.80%**	**0.88%**	1.17%	0.45%	0.72%	0.89%
Problematic credit as a percentage of the balance of credit to the public	**2.29%**	**0.51%**	**1.96%**	**1.69%**	2.24%	0.45%	1.90%	1.63%
Credit not at credit execution rating as a percentage of the balance of credit to the public	**4.70%**	**1.03%**	**9.17%**	**3.90%**	5.10%	1.02%	9.44%	4.16%
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	**0.23%**	**0.04%**	**0.45%**	**0.19%**	(0.08%)	0.06%	0.11%	(0.02%)
Net charge-offs as a percentage of the average balance of credit to the public	**0.02%**	**(0.01%)**	**0.06%**	**0.01%**	(0.05%)	-	0.07%	(0.03%)
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	**2.17%**	**0.41%**	**2.76%**	**1.65%**	2.17%	0.41%	2.64%	1.64%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public	**1.77%**	**0.39%**	**2.67%**	**1.40%**	1.80%	0.38%	2.55%	1.41%
Allowance for credit losses as a percentage of the balance of non-accruing credit to the public	**167.3%**	**76.1%**	**401.3%**	**165.5%**	156.4%	83.8%	427.1%	160.7%
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	**161.4%**	**76.1%**	**332.5%**	**159.0%**	154.2%	83.8%	353.2%	156.9%
Ratio of allowance for credit losses to net charge-offs	**104.4**	**(41.9)**	**46.6**	**116.8**	(34.6)	243.5	39.0	(58.3)

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

Note:
The rates calculated above refer to provisions in respect of credit to the public only, without credit losses in respect of banks and governments.
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 three months of 2023, compared with the end of 2022:

- Non-accruing credit as a percentage of the balance of credit to the public, for the Bank as a whole and in the commercial segment, despite an increase in the housing loan and private individual segments.
- 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 – a slight improvement for the Bank as a whole and in the commercial segment, despite an increase in the housing loan and private individual segments.
- 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 the sub-segments, with the exception of the housing loan segment, which had a slight increase.
- The allowance for credit losses as a percentage of the balance of credit to the public decreased slightly, influenced by an increase in the balance of credit.

The following credit risk indicators increased (worsened) in the first three months of 2023, compared with the end of 2022:

- Problematic credit as a percentage of the balance of credit to the public, for the Bank as a whole and for each segment, following a consistent decrease in recent years.
- The provision for credit losses as a percentage of the average balance of credit to the public, for the Bank as a whole and the sub-segments, with the exception of the housing loan segment, influenced by an increase in the collective allowance, mainly as a result of more severe economic forecasts. A slight decrease was recorded in the area of housing, influenced by an increase in the average balance.
- Net charge-offs as a percentage of the average balance of credit to the public increased for the Bank as a whole, but remained near 0% for the Bank as a whole and for each segment.
- The overall allowance for credit losses (including the allowance in respect of off-balance sheet balances) as a percentage of credit to the public increased slightly, due to an increase in the allowance in respect of collectively examined debts.

According to the estimates of the Bank, the risk level in the portfolio is expected to be influenced by more severe economic conditions, to the extent that they materialize; however, at this stage the indicators do not point to a material change in the risk level. The Bank reflected the effect of the forecasts for changes in macroeconomic variables in determining the collective allowance.

Table D-2: Credit quality of credit exposures

		March 31, 2023			
		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	**3,528**	**412,751**	**5,638**	**410,641**
2	Bonds	**-**	**133,396**	**15**	**133,381**
3	Off-balance sheet exposures	**748**	**208,284**	**1,011**	**208,021**
4	Total	**4,276**	**754,431**	**6,664**	**752,043**

		March 31, 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	3,464	380,370	5,038	378,796
2	Bonds	-	64,738	12	64,726
3	Off-balance sheet exposures	772	214,794	860	214,706
4	Total	4,236	659,902	5,910	658,228

		December 31, 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	3,527	410,005	5,564	407,968
2	Bonds	-	103,369	17	103,352
3	Off-balance sheet exposures	813	208,507	935	208,385
4	Total	4,340	721,881	6,516	719,705

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

D.2.a. Details of exposures by economic sector

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

	March 31, 2023									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the three-month period ended March 31, 2023[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	**3,381**	**3,256**	**22**	**3,366**	**2,821**	**22**	**2**	**(5)**	**(3)**	**45**
Mining and quarrying	**1,571**	**1,000**	**564**	**1,470**	**981**	**564**	**546**	**(1)**	**-**	**182**
Industry	**31,407**	**30,491**	**485**	**30,701**	**16,340**	**481**	**159**	**(30)**	**(4)**	**307**
Construction and real estate – construction[7]	**103,690**	**101,916**	**981**	**103,517**	**48,765**	**981**	**560**	**96**	**(3)**	**934**
Construction and real estate – real-estate activities	**39,026**	**38,360**	**137**	**38,791**	**31,883**	**137**	**66**	**(3)**	**(6)**	**637**
Electricity and water supply	**12,906**	**12,481**	**285**	**12,331**	**7,646**	**285**	**99**	**(27)**	**5**	**479**
Commerce	**38,761**	**37,224**	**635**	**38,639**	**28,515**	**635**	**305**	**21**	**5**	**340**
Hotels, hospitality, and food services	**11,885**	**10,961**	**499**	**11,855**	**10,367**	**499**	**110**	**50**	**1**	**235**
Transportation and storage	**12,627**	**11,744**	**487**	**12,518**	**8,809**	**483**	**195**	**20**	**2**	**374**
Information and communications	**7,564**	**6,743**	**153**	**7,499**	**5,279**	**153**	**131**	**(19)**	**(15)**	**133**
Financial services	**53,602**	**53,524**	**11**	**38,197**	**28,822**	**11**	**7**	**3**	**7**	**179**
Other business services	**16,977**	**15,802**	**214**	**16,804**	**11,068**	**214**	**71**	**5**	**5**	**246**
Public and community services	**8,859**	**8,172**	**382**	**8,848**	**6,772**	**382**	**364**	**12**	**9**	**250**
Total commercial[8]	**342,256**	**331,674**	**4,855**	**324,536**	**208,068**	**4,847**	**2,615**	**122**	**3**	**4,341**
Private individuals – housing loans	**135,414**	**134,097**	**643**	**135,414**	**128,524**	**643**	**643**	**12**	**(3)**	**530**
Private individuals – other	**54,220**	**50,878**	**685**	**54,212**	**34,808**	**685**	**233**	**38**	**4**	**961**
Total public – activity in Israel	**531,890**	**516,649**	**6,183**	**514,162**	**371,400**	**6,175**	**3,491**	**172**	**4**	**5,832**
Banks in Israel[9]	**1,201**	**1,201**	**-**	**854**	**124**	**-**	**-**	**2**	**-**	**4**
Israeli government	**90,966**	**90,966**	**-**	**872**	**868**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**624,057**	**608,816**	**6,183**	**515,888**	**372,392**	**6,175**	**3,491**	**174**	**4**	**5,836**

(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 372,392; 90,569; 19; 4,025; and 157,052 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.
(7) Including balance sheet credit risk in the amount of approximately NIS 406 million and off-balance sheet credit risk in the amount of approximately NIS 1,059 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 35 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.

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

	December 31, 2022									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 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	3,393	3,261	23	3,380	2,820	23	3	(25)	(37)	48
Mining and quarrying	1,754	1,138	612	1,754	1,142	612	610	(533)	-	184
Industry	31,481	30,570	487	30,919	16,637	485	157	70	(23)	335
Construction and real estate – construction[7]	101,927	99,490	1,007	101,819	47,152	1,007	610	(165)	(79)	834
Construction and real estate – real-estate activities	36,900	36,325	109	36,643	30,844	109	72	173	(56)	635
Electricity and water supply	13,714	13,249	291	13,127	7,175	291	107	49	39	512
Commerce	39,133	37,566	582	38,954	28,179	582	242	(23)	5	323
Hotels, hospitality, and food services	11,567	10,353	182	11,546	9,999	182	117	(7)	(6)	185
Transportation and storage	12,891	11,944	529	12,794	8,853	526	237	121	12	358
Information and communications	7,551	6,866	144	7,501	5,213	144	131	31	(11)	142
Financial services	51,736	51,521	29	38,237	27,684	29	22	(128)	(4)	184
Other business services	17,243	15,949	252	17,106	11,298	252	116	84	13	247
Public and community services	9,089	8,403	407	9,083	6,801	407	387	57	6	246
Total commercial[8]	338,379	326,635	4,654	322,863	203,797	4,649	2,811	(296)	(141)	4,233
Private individuals – housing loans	134,643	133,342	572	134,643	127,527	572	572	72	2	515
Private individuals – other	52,896	49,437	670	52,892	35,054	670	211	40	22	927
Total public – activity in Israel	525,918	509,414	5,896	510,398	366,378	5,891	3,594	(184)	(117)	5,675
Banks in Israel[9]	1,391	1,391	-	1,206	255	-	-	1	-	1
Israeli government	68,613	68,613	-	771	768	-	-	-	-	-
Total activity in Israel	595,922	579,418	5,896	512,375	367,401	5,891	3,594	(183)	(117)	5,676

(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 367,401; 67,788; 316; 2,468; and 157,949 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.
(7) Including balance sheet credit risk in the amount of approximately NIS 447 million and off-balance sheet credit risk in the amount of approximately NIS 628 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 72 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.

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

	March 31, 2023									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the three-month period ended March 31, 2023[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[8]
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	**171**	**171**	**-**	**171**	**171**	**-**	**-**	**-**	**-**	**1**
Mining and quarrying	**725**	**725**	**-**	**391**	**82**	**-**	**-**	**(10)**	**-**	**2**
Industry	**4,745**	**4,616**	**69**	**3,317**	**1,899**	**69**	**-**	**3**	**7**	**24**
Construction and real estate	**13,861**	**12,325**	**802**	**13,744**	**9,943**	**800**	**568**	**28**	**-**	**554**
Electricity and water supply	**1,233**	**1,189**	**-**	**797**	**183**	**-**	**-**	**1**	**-**	**5**
Commerce	**3,574**	**3,532**	**40**	**3,322**	**2,662**	**40**	**40**	**(5)**	**-**	**31**
Hotels, food services, and hospitality	**3,912**	**3,050**	**582**	**3,912**	**3,022**	**582**	**-**	**(8)**	**-**	**92**
Transportation and storage	**1,104**	**1,065**	**38**	**792**	**676**	**38**	**-**	**-**	**-**	**15**
Information and communications	**2,921**	**2,862**	**59**	**2,546**	**1,980**	**59**	**14**	**2**	**-**	**19**
Total financial services	**12,083**	**12,081**	**1**	**4,456**	**3,852**	**1**	**1**	**2**	**-**	**14**
Other business services	**1,632**	**1,405**	**216**	**1,514**	**1,072**	**216**	**-**	**(1)**	**-**	**15**
Public services	**2,965**	**2,965**	**-**	**2,762**	**2,385**	**-**	**-**	**-**	**-**	**22**
Total commercial	**48,926**	**45,986**	**1,807**	**37,724**	**27,927**	**1,805**	**623**	**12**	**7**	**794**
Private individuals – housing loans	**659**	**635**	**18**	**659**	**609**	**18**	**18**	**-**	**-**	**4**
Private individuals – other	**213**	**209**	**-**	**213**	**71**	**-**	**-**	**1**	**1**	**1**
Total public – activity overseas	**49,798**	**46,830**	**1,825**	**38,596**	**28,607**	**1,823**	**641**	**13**	**8**	**799**
Banks overseas[7]	**25,761**	**25,756**	**-**	**13,985**	**13,529**	**-**	**-**	**-**	**-**	**9**
Governments overseas	**31,214**	**31,048**	**-**	**1,796**	**1,751**	**-**	**-**	**(2)**	**-**	**20**
Total activity overseas	**106,773**	**103,634**	**1,825**	**54,377**	**43,887**	**1,823**	**641**	**11**	**8**	**828**
Total in Israel and overseas	**730,830**	**712,450**	**8,008**	**570,265**	**416,279**	**7,998**	**4,132**	**185**	**12**	**6,664**

(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 43,887; 42,827; 1,998; 612; and 17,449 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 non-accruing, substandard, or special mention credit risk.
(7) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.
(8) 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, 2022									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 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[8]
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	164	164	-	164	164	-	-	-	-	1
Mining and quarrying	763	763	-	369	64	-	-	2	-	12
Industry	3,940	3,924	16	2,609	1,662	16	-	(19)	(3)	17
Construction and real estate	13,650	12,019	838	13,546	9,781	837	558	96	16	527
Electricity and water supply	1,177	1,130	-	762	179	-	-	(5)	-	4
Commerce	3,667	3,627	41	3,332	2,705	41	41	23	(2)	37
Hotels, food services, and hospitality	3,747	2,840	635	3,747	2,978	635	6	8	-	107
Transportation and storage	1,024	932	70	787	678	70	29	7	-	29
Information and communications	2,583	2,570	13	2,214	1,821	13	13	1	2	18
Total financial services	10,062	10,060	1	4,480	3,782	1	1	(12)	-	12
Other business services	1,535	1,314	222	1,536	1,091	222	-	9	8	16
Public services	2,861	2,858	2	2,673	2,323	2	2	10	-	23
Total commercial	45,173	42,201	1,838	36,219	27,228	1,837	650	120	21	803
Private individuals – housing loans	631	614	9	631	578	9	9	(1)	-	4
Private individuals – other	220	213	1	220	78	1	-	-	1	1
Total public – activity overseas	46,024	43,028	1,848	37,070	27,884	1,847	659	119	22	808
Banks overseas[7]	27,239	27,238	-	17,608	16,837	-	-	9	-	10
Governments overseas	25,760	25,669	-	1,541	1,410	-	-	21	-	22
Total activity overseas	99,023	95,935	1,848	56,219	46,131	1,847	659	149	22	840
Total in Israel and overseas	694,945	675,353	7,744	568,594	413,532	7,738	4,253	(34)	(95)	6,516

(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 46,131; 35,581; 582; 285; and 16,444 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 non-accruing, substandard, or special mention credit risk.
(7) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.
(8) 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]

	March 31, 2023			December 31, 2022		
	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-	**5,616**	**6,821**	**12,437**	4,906	11,504	16,410
A+ to A-	**10,062**	**15,341**	**25,403**	8,178	10,719	18,897
BBB+ to BBB-	**206**	**31**	**237**	101	96	197
BB+ to B-	**2**	**-**	**2**	5	-	5
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**400**	**50**	**450**	339	66	405
Total present credit exposures to foreign financial institutions	**16,286**	**22,243**	**38,529**	13,529	22,385	35,914

(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.

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions.

This risk arises from the range of activities conducted with the financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits of foreign-currency balances and derivatives), purchases of bonds issued by such institutions, foreign-trade transactions, capital-market activity, and credit insurance through foreign insurance companies. The exposure to foreign financial institutions is influenced both by the financial robustness of each institution and by the risk in the political and economic environment in which it operates. It is emphasized that most of the credit exposures of the Bank Group are to financial institutions located in developed markets in Western Europe and North America, rated investment grade or higher.

The rapid rise in interest rates, accompanied by rising credit risks in various sectors, has in several cases damaged the stability of banks, as a result of a gap between soaring funding costs and fixed-rate customer liabilities, as well as damaging the present value of long-duration assets, particularly bond portfolios. For example, Silicon Valley Bank (SVB) accumulated heavy losses in the value of its bond portfolio, and an accelerated outflow of deposits began. The bank was sold under the auspices of the United States regulator. The Swiss bank Credit Suisse was merged into UBS, with one tranche of debt written down due to weakness in internal controls, losses, and liquidity loss. Central banks intervened in the markets to avert a liquidity crisis, and worries over a global banking crisis grew.

At this time, the crisis appears to be centered on American regional banks, where concerns have arisen following the collapse of SVB, which led to significant withdrawals of money by customers. The exposures of Bank Hapoalim to global banks are focused on large, top-tier banks rated investment grade. The same is true for the Bank's exposures to American banks. The Bank does not have, and did not have at the time of the collapses/bailouts, exposures to the American banks that have failed or been bailed out in recent months (SVB, Signature Bank, and First Republic Bank). The Bank has negligible exposure to a small number of regional banks in the United States.
In the ordinary course of its business, the Bank regularly applies monitoring and controls with respect to developments that may affect the ability of the financial institutions with which it conducts activity to meet their obligations. Concurrently, measures are applied in order to minimize credit risk.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 38.5 billion on March 31, 2023, an increase of approximately NIS 2.6 billion, compared with approximately NIS 35.9 billion at the end of 2022. This increase mainly resulted from an increase in the amount of approximately NIS 2.8 billion in balance-sheet exposure, mainly as a result of an increase in securities and in securities borrowed or purchased under agreements to resell of foreign financial institutions. Approximately 98.2% 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: 36.9% in banks and bank holding companies, 58.1% in insurance companies, and 5.0% in another financial institution.
The exposure of the Bank Group is to foreign financial institutions operating in Western European countries (69.6%), the United States (24.7%), and South and East Asian countries (5.7%).

D.3. Additional information regarding exposures to credit risks

D.3.a. Construction and real estate

Activity in the construction and real-estate sectors slowed considerably in recent months. The volume of transactions in new and preowned homes decreased steeply in January-February, by approximately 40% year-on-year, and the inventory of unsold homes grew. Interest-rate increases have reduced households’ ability to buy homes and lowered purchases by investors. Data from the Central Bureau of Statistics indicate that prices of new homes are beginning to fall, with a 1.9% decrease in the last few months. Anecdotal data from land sale auction results point to sharp declines in prices, in many cases.
The growth of the portfolio slowed significantly in 2022, compared with the preceding year. With the changes in the economic environment, the increase in the interest rate, and the decrease in the volume of transactions, measures were taken in 2022 and early 2023 to apply stricter credit underwriting rules in this sector. The Bank is operating within its credit risk management limits, while examining risk-adjusted profitability. The Bank is continuing to examine the potential implications of the changes in the economic environment, and the potential effect of the continued increase in the interest rate and inflation, and will perform additional required adjustments as necessary. The Bank reflects expected economic conditions and portfolio data in determining the appropriate collective allowance for the construction and real-estate sector.

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

	Balance as at March 31, 2023			
	Balance sheet credit risk	Off-balance sheet credit		Total credit risk
	Loans[1]	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	**2,604**	**747**	**478**	**3,829**
Construction for industry	**171**	**26**	**38**	**235**
Housing construction	**32,045**	**18,505**	**(1)20,017**	**70,567**
Yield-generating properties	**27,543**	**5,823**	**697**	**34,063**
Other	**9,892**	**8,091**	**4,789**	**22,772**
Corporate Banking Division total	**72,255**	**33,192**	**26,019**	**131,466**
Retail Banking Division	**8,578**	**1,956**	**716**	**11,250**
Total activity in Israel	**80,833**	**35,148**	**26,735**	**142,716**

	Balance as at December 31, 2022			
	Balance sheet credit risk	Off-balance sheet credit		Total credit risk
	Loans[1]	Unutilized credit facilities	Guarantees	
	NIS millions			
Corporate Banking Division				
Construction for commerce and services	2,734	793	499	4,026
Construction for industry	361	86	45	492
Housing construction	30,677	17,591	(1)21,537	69,805
Yield-generating properties	26,365	4,607	796	31,768
Other	9,156	7,278	4,877	21,311
Corporate Banking Division total	69,293	30,355	27,754	127,402
Retail Banking Division	8,836	1,852	737	11,425
Total activity in Israel	78,129	32,207	28,491	138,827

(1) 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 March 31, 2023.

Overall credit risk in the construction and real-estate sectors in Israel totaled approximately NIS 143 billion as at March 31, 2023. The total balance of risk of credit to the public in the construction and real-estate sectors in Israel increased by approximately 2.8% in the first three months of 2023. 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 industries of construction of buildings for commerce and services, construction for industry, and 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
	March 31, 2023	December 31, 2022	
	NIS millions		
Credit risk at credit execution rating			
Non-problematic credit risk	**140,276**	135,815	3.3%
Credit risk not at credit execution rating			
Problematic accruing	**492**	434	13.4%
Non-accruing	**626**	682	(8.2%)
Non-problematic	**1,322**	1,896	(30.3%)
Total credit risk not at credit execution rating	**2,440**	3,012	(19.0%)
Total	**142,716**	138,827	2.8%

Total credit risk not at credit execution rating decreased by 19% in the first three months of 2023. Total credit risk not at credit execution rating as a percentage of total credit risk decreased from 2.17% in 2022 to 1.71% in the first three months of 2023. Problematic debt as a percentage of total credit risk decreased from 0.80% in 2022 to 0.78% in the first three months of 2023, and non-accruing debt as a percentage of total credit risk decreased from 0.49% in 2022 to 0.44% in the first three months of 2023.

The Bank estimates that the quality of the portfolio of credit for construction and real estate is good, as reflected in the indicators noted above. However, the changes in the economic environment continue to indicate an increase in the probability of worsening in these sectors, and consequently of an increase in the level of borrowers' credit risk. The Bank therefore increased its collective allowance in respect of this portfolio in 2022 and in the first quarter of 2023.

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

	Balance as at March 31, 2023				
	Land	Real estate in construction processes[2]	Completed properties	Other	Total
	NIS millions				
Financing rate[3]					
Up to 45%	**2,282**	**-**	**4,980**	**-**	**7,262**
Over 45% up to 65%	**6,809**	**-**	**8,024**	**-**	**14,833**
Over 65% up to 80%	**17,454**	**-**	**6,290**	**-**	**23,744**
Over 80%	**2,741**	**-**	**790**	**-**	**3,531**
Absorption capacity[4]					
Up to 25%	**-**	**409**	**-**	**-**	**409**
Over 25% up to 50%	**-**	**9,012**	**-**	**-**	**9,012**
Over 50% up to 75%	**-**	**8,899**	**-**	**-**	**8,899**
Over 75%	**-**	**25,253**	**-**	**-**	**25,253**
Projects not yet started	**-**	**10,000**	**-**	**-**	**10,000**
Other[5]	**-**	**-**	**-**	**28,523**	**28,523**
Total Corporate Banking Division credit risk	**29,286**	**53,573**	**20,084**	**28,523**	**131,466**

* Data on credit risk in the real-estate sector in the Corporate Banking Division by financing rate (LTV) and absorption capacity as at March 31, 2023, are stated above in a different format than the data as at December 31, 2021, as they are stated in terms of credit risk after the effect of haircuts and deductions in respect of liabilities and Sale Law guarantees, consistently with the presentation of the data in the tables on segmentation of credit risk by economic sector.

(1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.

(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; land where development has started; and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of the monetary credit at the report date 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 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: Credit risk 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, 2022				
	Land	Real estate in construction processes[(2)]	Completed properties	Other	Total
	NIS millions				
Financing rate[(3)]					
Up to 45%	2,316	-	4,937	-	7,253
Over 45% up to 65%	6,666	-	6,701	-	13,367
Over 65% up to 80%**	15,242	-	5,575	-	20,817
Over 80%**	3,733	-	761	-	4,494
Absorption capacity[(4)]					
Up to 25%	-	865	-	-	865
Over 25% up to 50%	-	7,190	-	-	7,190
Over 50% up to 75%	-	7,791	-	-	7,791
Over 75%	-	27,237	-	-	27,237
Projects not yet started	-	9,109	-	-	9,109
Other[(5)]	-	-	-	29,279	29,279
Total Corporate Banking Division credit risk	27,957	52,192	17,974	29,279	127,402

* Data on credit risk in the real-estate sector in the Corporate Banking Division by financing rate (LTV) and absorption capacity as at March 31, 2023, are stated above in a different format than the data as at December 31, 2021, as they are stated in terms of credit risk after the effect of haircuts and deductions in respect of liabilities and Sale Law guarantees, consistently with the presentation of the data in the tables on segmentation of credit risk by economic sector.

** Reclassified.

(1) Segmentation was performed according to an analysis of the source of repayment of each credit, as presented and approved during the underwriting process.

(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; land where development has started; and balances of Sale Law guarantees in the process of cancellation in respect of completed projects.

(3) The financing rate is the ratio of the monetary credit at the report date 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 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 80% constitutes approximately 7.2% of the total balance of completed properties and land at the Corporate Banking Division as at March 31, 2023, compared with 9.8% in 2022. Credit with absorption capacity of up to 25% for real estate in construction processes constitutes approximately 0.9% of the total balance of real estate in construction processes at the Corporate Banking Division (excluding projects not yet started) in the first quarter of 2023, compared with 2.0% in 2022.

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. A questions and answers document was released on January 26, 2023, containing clarifications regarding the implementation of the circular. For additional information, see Note 9K to the Condensed Financial Statements.

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. Beginning in the second half of 2021, the Bank expanded its use of insurance policies. In the first quarter of 2023, the Bank continued to expand the land insurance policies that protect the Bank against credit losses in respect of the portfolio of loans granted to customers of the Corporate Banking Division of the Bank that are secured by a lien on land. In addition, the Bank uses insurance policies for Sale Law guarantees that protect the Bank against losses in respect of Sale Law guarantees issued in real-estate projects of customers of the Corporate Banking Division financed by the Bank. These insurance policies allow the Bank to reduce its exposure to the construction and real-estate sector. The Bank may take additional measures in the future to continue to manage this limit and the exposure to this sector (for further details, see Note 10A(4) to the Condensed Financial Statements).

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.

The allowance for credit losses in respect of the construction and real-estate sectors in Israel totaled approximately NIS 1,571 million as at March 31, 2023, compared with a total of approximately NIS 1,469 million as at December 31, 2022. 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 March 31, 2023, is 1.95%, compared with 1.88% as at December 31, 2022.

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

	March 31, 2023			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Electricity supply	**1**	**893**	**1,378**	**2,271**
Construction and real estate – construction	**7**	**7,423**	**4,352**	**11,775**
Construction and real estate – civil engineering	**3**	**1,420**	**3,778**	**5,198**
Hotels, hospitality, and food services	**1**	**1,306**	**18**	**1,324**
Information and communications	**1**	**1,195**	**147**	**1,342**
Financial services	**12**	**13,072**	**13,269**	**26,341**
Industry	**2**	**1,307**	**3,493**	**4,800**
Motor-vehicle trading	**1**	**982**	**335**	**1,317**
Total	**28**	**27,598**	**26,770**	**54,368**

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 (continued)

	December 31, 2022			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Electricity supply	1	1,310	1,360	2,670
Construction and real estate – construction	6	6,568	3,419	9,987
Construction and real estate – civil engineering	3	1,187	3,826	5,013
Hotels, hospitality, and food services	1	1,014	297	1,311
Information and communications	1	1,194	150	1,344
Financial services	10	11,662	10,557	22,219
Industry	2	1,206	3,642	4,848
Total	24	24,141	23,251	47,392

Credit risk in respect of exposure to borrower groups

As at March 31, 2023, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

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

In November 2022, the Bank of Israel issued a draft update of Proper Conduct of Banking Business Directive 313, "Supervisory Framework for the Measurement and Control of Large Exposures," the essence of which is a change in the manner of calculation of indebtedness in respect of large exposures. The Bank is examining the implications of the implementation of the directive.

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

Table D-9: 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 %		
March 31, 2023	**33,366**	**25.8%**	**50,850**	**39.4%**	**14,175**	**11.0%**	**30,655**	**23.7%**	**122**	**0.1%**	**129,168**	**0.8%**
Dec. 31, 2022	32,815	25.6%	50,886	39.7%	13,951	10.9%	30,398	23.7%	127	0.1%	128,177	11.3%
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%

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-10: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed

	For the three months ended				
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Characteristics					
Financing rate over 60%	**41.3%**	42.6%	42.0%	41.8%	42.2%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**1.1%**	0.2%	0.3%	0.2%	0.1%
Percentage with floating rates	**56.2%**	57.5%	60.3%	60.8%	59.6%
Percentage of all-purpose loans	**5.7%**	4.5%	3.0%	2.6%	2.7%
Loans for investment purposes as a percentage of total purchases of homes	**9.9%**	10.6%	9.8%	9.8%	11.2%
Principal planned for repayment after age 67 (excluding investments)	**10.5%**	9.4%	9.7%	9.2%	8.0%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**26.3**	25.9	25.4	25.1	24.6

In the first three months of 2023, balances of housing loans rose slightly, by 0.8%, lower than the growth rate in 2022. The more moderate growth rate in balances was influenced by the increases in the interest rate and the increase in inflation.

Quality indicators of new loans showed an increase (worsening) in the first three months of 2023 in the indicator of payment to income ratios greater than 40%, although the rate remained 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.

Decreases were recorded in the first three months of 2023 in the percentage of loans with financing rates higher than 60%, the percentage of loans executed at floating interest rates (slight decrease), and loans for investment purposes as a percentage of total purchases of homes.

The increases in the interest rate and the rise in inflation, which have led to higher monthly payments, combined with the growing uncertainty regarding economic conditions in the coming period, may lead to an increase in the risk level in this portfolio. The Bank has examined and will continue to examine the effects of the economic environment on borrowers' condition by analyzing the effects of forecasts and the actual effects on borrowers' condition.

The weighted average financing rate (LTV) in the housing-loan portfolio of the Bank as at March 31, 2023, is approximately 46%, similar to the financing rate as at December 31, 2022 (based on the financing rate when the loan was granted). The effective rate is even lower, due to regular repayments since the credit was granted and an increase in the value of the pledged assets.

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

Table D-11: Balance of credit to private individuals in Israel

	Balance as at		Change	
	March 31, 2023	December 31, 2022		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**2,502**	2,666	(164)	(6.2%)
Loans[1]	**24,072**	24,256	(184)	(0.8%)
Of which: bullet and balloon loans	**52**	48	4	8.3%
Credit for purchases of motor vehicles[2]	**3,079**	3,359	(280)	(8.3%)
Debtors in respect of credit-card activity	**5,224**	4,849	375	7.7%
Total balance sheet credit risk	**34,877**	35,130	(253)	(0.7%)
Off-balance sheet				
Off-balance sheet credit risk	**19,546**	17,980	1,566	8.7%
Total credit risk	**54,423**	53,110	1,313	2.5%

(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, decreased by approximately 1.7% in the first three months of 2023 in comparison to December 31, 2022. Total balance sheet credit risk decreased by approximately 0.7% in this period, and total off-balance sheet credit risk increased by approximately 8.7%, mainly influenced by an increase in credit facilities in credit cards.

Beyond the measures taken with respect to housing credit, the Bank is considering additional measures to provide relief to borrowers in coping with the increase in the interest rate on consumer credit, such as spreading payments on existing loans and an option to extend the duration of the loan to ease monthly payments.

For details regarding problematic debts in respect of private individuals in Israel, see Note 13 to the Condensed Financial Statements.

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

D.3.e. Leveraged financing

The Bank provides leveraged financing to its customers from time to time. 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); 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 has set an internal limit on 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-12: Exposures of the Bank to leveraged financing, by economic sector of the borrower*

	March 31, 2023			
	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	**3**	**1,736**	**198**	**1,934**
Hotels, hospitality, and food services	**1**	**240**	**-**	**240**
Mining and quarrying	**2**	**376**	**-**	**376**
Commerce	**-**	**-**	**-**	**-**
Financial services and insurance services	**1**	**658**	**-**	**658**
Industry	**1**	**424**	**-**	**424**
Water supply and sewage services	**1**	**283**	**-**	**283**
Total	**9**	**3,717**	**198**	**3,915**

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

Table D-12: Exposures of the Bank to leveraged financing, by economic sector of the borrower* (continued)

	December 31, 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	1,196	216	1,412
Hotels, hospitality, and food services	1	240	-	240
Mining and quarrying	3	441	293	734
Commerce	1	350	-	350
Financial services and insurance services	1	657	51	708
Industry	1	429	-	429
Total	9	3,313	560	3,873

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

D.4. Credit risk mitigation: standardized approach disclosures

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

Pursuant to the Basel 3 directives, under certain conditions, certain collateral, such as guarantees, credit derivatives, and financial assets held as collateral, can be deducted from risk components for the purpose of calculating the capital-adequacy ratio.

The deduction of collateral for the calculation of the capital ratio is performed after using safety margins established in the directive. These margins take into account factors including the term to maturity of the collateral, any lack of congruity between the linkage terms of the collateral and of the credit that it secures, and volatility in the value of the collateral.

The qualifying financial collateral used by the Bank to calculate capital adequacy and risk mitigation includes deposits that constitute collateral by way of liens, bonds of banking corporations and governments under permanent liens, and shares under lien traded on the primary index. In addition, the Bank uses guarantees of banking corporations, which transfer the exposure from the segment of the guaranteed party to exposure to banking corporations.

Table D-13: Credit risk mitigation

		March 31, 2023								
		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	**343,220**	**67,421**	**44,046**	**35,160**	**27,619**	**32,261**	**16,427**	**-**	**-**
2	Bonds	**133,381**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3	Total	**476,601**	**67,421**	**44,046**	**35,160**	**27,619**	**32,261**	**16,427**	**-**	**-**
4	Of which: non-accruing or past due by 90 days or more	**9,457**	**124**	**6**	**124**	**6**	**-**	**-**	**-**	**-**

		March 31, 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	339,802	38,994	23,797	15,385	12,854	23,609	10,943	-	-
2	Bonds	64,726	-	-	-	-	-	-	-	-
3	Total	404,528	38,994	23,797	15,385	12,854	23,609	10,943	-	-
4	Of which: non-accruing or past due by 90 days or more	2,993	180	6	180	6	-	-	-	-

		December 31, 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	345,472	62,496	39,701	32,887	23,831	29,609	15,870	-	-
2	Bonds	103,352	-	-	-	-	-	-	-	-
3	Total	448,824	62,496	39,701	32,887	23,831	29,609	15,870	-	-
4	Of which: non-accruing or past due by 90 days or more	7,769	153	4	153	4	-	-	-	-

Table D-14: Standardized approach – exposures by asset type and risk weight[(1)(2)]

		March 31, 2023									
		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	**191,428**	**650**	**-**	**28**	**-**	**-**	**103**	**85**	**-**	**192,294**
2	Public-sector entities (PSE) other than the central government	**2,159**	**5,218**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,377**
3	Banks (including multilateral development banks (MDB))	**1,943**	**15,874**	**-**	**93**	**-**	**-**	**32**	**-**	**-**	**17,942**
4	Securities companies	**-**	**2,064**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,064**
5	Corporations	**-**	**15,206**	**-**	**10,624**	**-**	**-**	**135,580**	**137**	**-**	**161,547**
6	Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**51,770**	**22**	**-**	**-**	**51,792**
7	Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**9,498**	**-**	**-**	**-**	**9,498**
8	Secured by a residential property	**-**	**-**	**34,853**	**37,566**	**35,031**	**14,207**	**3,307**	**-**	**-**	**124,964**
9	Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**85,846**	**5,917**	**-**	**91,763**
10	Past-due loans	**-**	**-**	**-**	**-**	**-**	**-**	**1,567**	**1,112**	**-**	**2,679**
11	Other assets*	**4,109**	**316**	**-**	**-**	**-**	**-**	**10,052**	**1,177**	**315**	**15,969**
11A	* Of which: in respect of shares	**-**	**-**	**-**	**-**	**-**	**-**	**3,239**	**718**	**-**	**3,957**
12	Total	**199,639**	**39,328**	**34,853**	**48,311**	**35,031**	**75,475**	**236,509**	**8,428**	**315**	**677,889**

(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-14: Standardized approach – exposures by asset type and risk weight[(1)(2)] (continued)

		March 31, 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	228,103	234	-	10	-	-	98	31	-	228,476
2	Public-sector entities (PSE) other than the central government	1,706	6,073	-	48	-	-	-	-	-	7,827
3	Banks (including multilateral development banks (MDB))	-	11,146	-	32	-	-	32	-	-	11,210
4	Securities companies	-	4,087	-	-	-	-	-	-	-	4,087
5	Corporations	-	10,702	-	9,905	-	-	123,120	130	-	143,857
6	Retail exposures to individuals	-	-	-	-	-	51,419	27	-	-	51,446
7	Loans to small businesses	-	-	-	-	-	9,562	-	-	-	9,562
8	Secured by a residential property	-	-	32,959	35,946	29,862	18,684	3,037	-	-	120,488
9	Secured by commercial real estate	-	-	-	-	-	-	83,903	-	-	83,903
10	Past-due loans	-	-	-	-	-	-	1,584	1,075	-	2,659
11	Other assets*	3,173	-	-	-	-	-	11,637	949	1,042	16,801
11A	* Of which: in respect of shares	-	-	-	-	-	-	3,221	657	-	3,878
12	Total	232,982	32,242	32,959	45,941	29,862	79,665	223,438	2,185	1,042	680,316

(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-14: Standardized approach – exposures by asset type and risk weight[1][2] (continued)

		December 31, 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	208,084	531	-	9	-	-	119	17	-	208,760
2	Public-sector entities (PSE) other than the central government	1,947	4,901	-	-	-	-	-	-	-	6,848
3	Banks (including multilateral development banks (MDB))	1,376	16,946	-	332	-	-	31	-	-	18,685
4	Securities companies	-	2,383	-	-	-	-	-	-	-	2,383
5	Corporations	-	15,003	-	10,697	-	-	133,068	124	-	158,892
6	Retail exposures to individuals	-	-	-	-	-	52,091	16	-	-	52,107
7	Loans to small businesses	-	-	-	-	-	9,661	-	-	-	9,661
8	Secured by a residential property	-	-	34,675	37,375	34,287	14,567	3,216	-	-	124,120
9	Secured by commercial real estate	-	-	-	-	-	-	85,581	4,962	-	90,543
10	Past-due loans	-	-	-	-	-	-	1,443	1,006	-	2,449
11	Other assets*	3,961	-	-	-	-	-	10,441	1,120	342	15,864
11A	* Of which: in respect of shares	-	-	-	-	-	-	3,333	715	-	4,048
12	Total	215,368	39,764	34,675	48,413	34,287	76,319	233,915	7,229	342	690,312

(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."

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

		March 31, 2023					March 31, 2022			
		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	SA-CCR approach (March 31, 2022: current exposure method)	**4,378**	**12,974**	**1.4**	**24,293**	**8,410**	6,100	10,745	11,404	3,751
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	**-**	**-**	**-**	**2,033**	**407**	-	-	*776	*155
6	Total	**4,378**	**12,974**	**1.4**	**26,326**	**8,817**	6,100	10,745	*12,180	*3,906

* Restated.

		December 31, 2022				
		Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA
		NIS millions				
1	SA-CCR approach	2,847	12,226	1.4	21,102	6,819
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	1,885	377
6	Total	2,847	12,226	1.4	22,987	7,196

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

		March 31, 2023		March 31, 2022		December 31, 2022	
		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	**24,224**	**4,572**	11,170	3,171	21,051	3,786

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

	March 31, 2023				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	**53**	**-**	**-**	**-**	**53**
Public-sector entities (PSEs) other than the central government	**-**	**576**	**-**	**-**	**576**
Banks (including multilateral development banks (MDB))	**-**	**5,655**	**19**	**-**	**5,674**
Securities companies	**-**	**15,559**	**-**	**-**	**15,559**
Corporations	**-**	**-**	**31**	**3,885**	**3,916**
Supervisory retail portfolios	**-**	**-**	**-**	**55**	**55**
Loans to small businesses	**-**	**-**	**-**	**38**	**38**
Secured by commercial real estate	**-**	**-**	**-**	**455**	**455**
Other assets	**-**	**-**	**-**	**-**	**-**
Total	**53**	**21,790**	**50**	**4,433**	**26,326**

	March 31, 2022				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	152	-	-	-	152
Public-sector entities (PSEs) other than the central government	-	652	-	-	652
Banks (including multilateral development banks (MDB))	-	3,784	12	1	3,797
Securities companies	-	5,679	-	-	5,679
Corporations	-	-	49	1,517	1,566
Supervisory retail portfolios	-	-	-	16	16
Loans to small businesses	-	-	-	65	65
Secured by commercial real estate	-	-	-	253	253
Other assets	-	-	-	-	-
Total	152	10,115	61	1,852	12,180

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

	December 31, 2022				
	0%	20%	50%	100%	Total credit exposure
	NIS millions				
Sovereigns	53	-	-	-	53
Public-sector entities (PSEs) other than the central government	-	582	-	-	582
Banks (including multilateral development banks (MDB))	-	6,280	17	-	6,297
Securities companies	-	12,800	-	-	12,800
Corporations	-	-	-	2,814	2,814
Supervisory retail portfolios	-	-	-	31	31
Loans to small businesses	-	-	-	47	47
Secured by commercial real estate	-	-	-	363	363
Other assets	-	-	-	-	-
Total	53	19,662	17	3,255	22,987

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

	March 31, 2023					
	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	**-**	**768**	**-**	**1,532**	**-**	**-**
Cash – other currencies	**-**	**4,900**	**-**	**2,035**	**14,362**	**2,217**
Local sovereign debt	**-**	**788**	**899**	**-**	**-**	**10,893**
Other sovereign debt	**-**	**1,501**	**256**	**-**	**1,160**	**3,168**
Debt of government agency	**-**	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**-**	**323**	**5,197**	**-**	**809**	**2,086**
Shares	**-**	**-**	**-**	**-**	**-**	**-**
Other collateral	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**8,280**	**6,352**	**3,567**	**16,331**	**18,364**

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

	March 31, 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	-	863	-	667	-	-
Cash – other currencies	-	4,004	-	1,972	6,199	266
Local sovereign debt	-	82	208	-	-	3,932
Other sovereign debt	-	418	66	-	-	1,588
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	7	611	-	-	1,189
Shares	-	66	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	5,440	885	2,639	6,199	6,975

	December 31, 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	-	1,123	-	1,762	-	-
Cash – other currencies	-	5,769	-	1,805	13,296	870
Local sovereign debt	-	6	19	-	-	10,917
Other sovereign debt	-	1,605	25	-	567	3,236
Debt of government agency	-	-	-	-	-	-
Corporate bonds	-	403	2,435	-	-	725
Shares	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	8,906	2,479	3,567	13,863	15,748

With regard to locked-in capital in connection with SA-CCR, which is replacing 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.

For additional information regarding counterparty risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.

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 yield curves 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 and in actual inflation;
- **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 or decline in value 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 yield;
- **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 or decline in value 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 interest rates of the NIS (in the linked and unlinked segments) and the USD, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.

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 the 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)

	March 31, 2023	**Average in 2022 up to March 31, 2023**	December 31, 2022	Average in 2022
	NIS millions			
Total trading in dealing rooms	**81**	**45**	27	41

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

	March 31, 2023		December 31, 2022	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	**(155)**	**49**	(82)	171
EUR	**(54)**	**47**	(31)	43
	3% increase	3% decrease	3% increase	3% decrease
CPI	**662**	**(703)**	555	(591)

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.

		March 31, 2023	March 31, 2022	December 31, 2022
		Risk-adjusted assets in NIS millions		
	Direct products			
1	Interest-rate risk (general and specific)	**3,762**	2,902	3,537
2	Share position risk (general and specific)	**-**	-	-
3	Exchange-rate risk	**788**	350	163
4	Commodity risk	**-**	-	-
	Options			
5	Simplified approach	**-**	-	-
6	Delta-plus approach	**630**	441	307
7	Scenario approach	**-**	-	-
8	Securitization	**-**	-	-
9	Total	**5,180**	3,693	4,007

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 reset dates, and more. Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income and capital to scenarios of change in the shekel and CPI-linked yield curves and in yield curves in other currencies (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group, if any).

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

	March 31, 2023					December 31, 2022[1]				
	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**	**447,452**	**58,205**	**92,695**	**16,054**	**614,406**	458,609	57,106	84,786	14,297	614,798
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	**653,658**	**21,836**	**970,982**	**76,992**	**1,723,468**	556,296	21,078	517,498	60,888	1,155,760
Financial liabilities**	**388,005**	**28,976**	**146,309**	**16,480**	**579,770**	402,250	30,630	136,096	15,041	584,017
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	**701,354**	**24,593**	**917,570**	**77,270**	**1,720,787**	599,672	25,298	466,949	60,959	1,152,878
Net fair value of financial instruments	**11,751**	**26,472**	**(202)**	**(704)**	**37,317**	12,983	22,256	(761)	(815)	33,663
Effect of employee benefit liabilities	**-**	**(4,161)**	**-**	**-**	**(4,161)**	-	(4,149)	-	-	(4,149)
Effect of spreading over periods of on-demand deposits	**15,536**	**-**	**3,034**	**763**	**19,333**	14,990	-	3,029	725	18,744
Adjusted net fair value*	**27,287**	**22,311**	**2,832**	**59**	**52,489**	27,973	18,107	2,268	(90)	48,258
Of which: banking book	**30,484**	**21,224**	**2,896**	**176**	**54,780**	27,953	18,598	2,224	(69)	48,706

* 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.

(1) Reclassified.

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

	March 31, 2023					December 31, 2022				
	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	**800**	**(864)**	**(4)**	**(6)**	**(74)**	890	(655)	27	10	272
Of which: banking book	**765**	**(858)**	**(9)**	**(4)**	**(106)**	844	(659)	26	9	220
1% parallel decrease	**(744)**	**921**	**9**	**(2)**	**184**	(843)	696	(33)	(19)	(199)
Of which: banking book	**(712)**	**915**	**14**	**(4)**	**213**	(795)	700	(32)	(18)	(145)
Non-parallel changes										
Steepening(1)	**(337)**	**(142)**	**(128)**	**28**	**(579)**	(186)	(94)	64	30	(186)
Of which: banking book	**(312)**	**(147)**	**(129)**	**27**	**(561)**	(118)	(96)	56	30	(128)
Flattening(2)	**596**	**(30)**	**114**	**(33)**	**647**	454	(32)	(36)	(34)	352
Of which: banking book	**560**	**(23)**	**114**	**(32)**	**619**	375	(31)	(28)	(34)	282
Increase in short-term interest rate	**853**	**(389)**	**63**	**(33)**	**494**	751	(308)	(7)	(23)	413
Of which: banking book	**806**	**(381)**	**61**	**(31)**	**455**	660	(308)	1	(22)	331
Decrease in short-term interest rate	**(854)**	**387**	**(55)**	**28**	**(494)**	(746)	305	57	18	(366)
Of which: banking book	**(810)**	**378**	**(53)**	**26**	**(459)**	(657)	305	49	17	(286)

* 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)

	March 31, 2023			December 31, 2022		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS	Foreign currency
	NIS millions					
Parallel changes						
1% parallel increase	**199**	**(1,031)**	**(33)**	111	(964)	(116)
1% parallel decrease	**(73)**	**1,144**	**27**	8	1,072	113

The difference between economic value sensitivity and fair value sensitivity as at March 31, 2023, mainly stems from the use of different discount curves, as described above, the effect of which is estimated at approximately NIS 0.4 billion in the unlinked segment and approximately NIS 0.2 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

	March 31, 2023			December 31, 2022		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**402**	**(41)**	**361**	681	(243)	438
Of which: banking book	**402**	**(74)**	**328**	681	(291)	390
1% parallel decrease	**(1,526)**	**37**	**(1,489)**	(1,773)	233	(1,540)
Of which: banking book	**(1,526)**	**67**	**(1,459)**	(1,773)	284	(1,489)

Income sensitivity in the table above was calculated by changing yield curves, using behavioral assumptions regarding changes in deposit spreads, and regarding the transfer of funds from current accounts to deposits in the case of an increase in the interest rate, with the assumption of interest-rate floors. The assumptions are examined and updated periodically, according to developments in the interest-rate environment, and were updated during the first quarter in light of the changes in the interest-rate environment and in customers' behavior. The sensitivity of the trading book was calculated using the MTM approach.

Interest rates of the central banks in Israel and worldwide continued to rise in the first quarter of 2023, and a moderate increase in yield curves in Israel was observed. The increase in yield 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; part of this effect may wane with the transition from current-account deposits to other products. However, the increase in yield 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 target and capital management and planning," above.

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.

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, 2022.

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 meet its obligations. 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 significantly impair 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 March 31, 2023	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**173,662**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**257,109**	**18,357**
Stable deposits	**77,116**	**3,856**
Less stable deposits	**111,399**	**12,443**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**68,594**	**2,058**
Unsecured wholesale financing, of which:	**172,463**	**113,657**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**2,965**	**741**
Non-operational deposits (all counterparties)	**169,193**	**112,611**
Unsecured debts	**305**	**305**
Secured wholesale financing	**5,443**	**461**
Additional liquidity requirements, of which:	**125,710**	**19,419**
Outflows related to derivative exposure and other collateral requirements	**29,508**	**8,668**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**96,202**	**10,751**
Other contractual funding obligations	**10,734**	**10,734**
Other contingent funding obligations	**77,905**	**1,979**
Total cash outflows	**-**	**164,607**
Cash inflows		
Secured lending (e.g. reverse repos)	**1,525**	**46**
Inflows from fully performing exposures	**31,480**	**21,515**
Other cash inflows	**10,749**	**6,767**
Total cash inflows	**-**	**28,328**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**173,662**
Total net cash outflows	**136,279**
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 in the quarter.

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

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

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

	For the quarter ended March 31, 2022	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)	-	202,455
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	244,473	20,192
Stable deposits	80,789	4,039
Less stable deposits	133,338	15,242
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	30,346	911
Unsecured wholesale financing, of which:	205,243	135,377
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,679	670
Non-operational deposits (all counterparties)	202,281	134,424
Unsecured debts	283	283
Secured wholesale financing	1,900	263
Additional liquidity requirements, of which:	123,091	20,565
Outflows related to derivative exposure and other collateral requirements	16,488	8,417
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	106,603	12,148
Other contractual funding obligations	6,409	6,409
Other contingent funding obligations	72,398	2,038
Total cash outflows	-	184,844
Cash inflows		
Secured lending (e.g. reverse repos)	1,044	1,044
Inflows from fully performing exposures	23,658	12,984
Other cash inflows	10,511	5,547
Total cash inflows	-	19,575

	Total adjusted value***
Total high-quality liquid assets (HQLA)	202,455
Total net cash outflows	165,269
Liquidity coverage ratio (%)	123%

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

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

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

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

	For the quarter ended December 31, 2022	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)	-	179,514
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	253,557	19,186
Stable deposits	79,553	3,978
Less stable deposits	122,120	13,652
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	51,884	1,556
Unsecured wholesale financing, of which:	185,597	123,976
Operational deposits (all counterparties) and deposits in networks of cooperative banks	2,920	730
Non-operational deposits (all counterparties)	181,428	121,997
Unsecured debts	1,249	1,249
Secured wholesale financing	3,773	937
Additional liquidity requirements, of which:	120,669	18,850
Outflows related to derivative exposure and other collateral requirements	25,885	8,757
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	94,784	10,093
Other contractual funding obligations	11,227	11,227
Other contingent funding obligations	79,158	2,010
Total cash outflows	-	176,186
Cash inflows		
Secured lending (e.g. reverse repos)	1,553	-
Inflows from fully performing exposures	39,500	19,639
Other cash inflows	11,107	8,835
Total cash inflows	-	28,474

	Total adjusted value***
Total high-quality liquid assets (HQLA)	179,514
Total net cash outflows	147,712
Liquidity coverage ratio (%)	122%

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

** 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 57.

*** 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 first quarter of 2023 (the average of the daily observations in the quarter) was 127% consolidated and 127% for the stand-alone banking corporation, while the minimum requirement is 100%. The average ratio in the first quarter of 2023 increased in comparison to the liquidity coverage ratio in the fourth quarter of 2022, due to changes in the composition of depositors and types of deposits. 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 first quarter of 2023 is 127%, consolidated, while the minimum requirement is 100%. The net stable financing ratio decreased in comparison to the ratio as at December 31, 2022, due to growth of funding needs (mainly in respect of credit).

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, repo deposits, issues of CDs and other instruments secured by the FDIC in the United States, and additional resources. 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 funding source.

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

	March 31, 2023				
	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:	-	-	-	**63,373**	**63,373**
Supervisory capital	-	-	-	**63,373**	**63,373**
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	**216,859**	**20,288**	**19,907**	**237,681**
Stable deposits	-	**83,242**	**3,588**	**6,334**	**88,823**
Less stable deposits	-	**133,617**	**16,700**	**13,573**	**148,858**
Wholesale funding:	-	**212,962**	**14,169**	**6,163**	**72,540**
Operational deposits	-	-	-	-	-
Other wholesale funding	-	**212,962**	**14,169**	**6,163**	**72,540**
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	**44,002**	**7,641**	**30,434**	**36,841**
NSFR derivative liabilities			**678**		
All other liabilities and equity not included in the above categories	-	**43,324**	**7,641**	**30,434**	**36,841**
Total available stable financing (ASF)	-	**473,823**	**42,098**	**119,877**	**410,435**
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	**117,466**	**27,675**	**58,805**	**8,228**
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	**77,735**	**46,183**	**263,728**	**277,029**
Performing loans to financial institutions secured by Level 1 HQLA	-	**1,996**	-	-	**200**
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	**8,484**	**3,197**	**7,652**	**10,523**
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	**62,090**	**39,826**	**126,599**	**157,620**
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	**11,695**	**7,862**	**4,735**	**12,856**
Performing residential mortgages, of which:	-	**3,211**	**3,135**	**122,641**	**101,204**
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	**1,252**	**1,141**	**31,066**	**21,389**
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	**1,954**	**25**	**6,836**	**7,482**
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	**25,401**	**104**	**7,612**	**29,953**
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			**265**		**225**
NSFR derivative assets			**7,993**		**7,315**
NSFR derivative liabilities before deduction of variation margin posted			**265**		**265**
Others	-	**16,878**	**104**	**7,612**	**22,148**
Off-balance sheet items			**184,972**		**8,368**
Total required stable financing (RSF)					**323,578**
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)

	March 31, 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:	-	-	-	48,233	48,233
Supervisory capital	-	-	-	48,233	48,233
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	230,018	5,238	9,408	225,494
Stable deposits	-	85,490	1,616	3,849	86,600
Less stable deposits	-	144,528	3,622	5,559	138,894
Wholesale funding:	-	238,731	10,239	5,902	76,514
Operational deposits	-	-	-	-	-
Other wholesale funding	-	238,731	10,239	5,902	76,514
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	27,876	6,997	38,634	44,505
NSFR derivative liabilities			2,124		
All other liabilities and equity not included in the above categories	-	25,734	6,997	38,634	44,505
Total available stable financing (ASF)	-	496,625	22,474	102,177	394,746
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	182,239	639	45,427	6,620
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	73,251	37,269	245,091	257,052
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	-	3,681	2,330	8,207	9,924
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	65,117	31,595	118,336	147,971
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	11,861	8,632	4,854	13,402
Performing residential mortgages, of which:	-	3,352	3,344	113,301	93,964
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,220	1,185	28,446	19,693
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	1,101	-	5,247	5,193
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	17,792	112	8,277	22,886
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			201		171
NSFR derivative assets			4,899		2,757
NSFR derivative liabilities before deduction of variation margin posted			268		268
Others	-	12,424	112	8,277	19,690
Off-balance sheet items			175,972		8,051
Total required stable financing (RSF)					294,609
Net stable financing ratio (NSFR) (%)					134%

* 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, 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:	-	-	-	61,620	61,620
Supervisory capital	-	-	-	61,620	61,620
Other capital instruments	-	-	-	-	-
Retail deposits from individuals and small businesses:	-	223,091	12,513	17,707	234,073
Stable deposits	-	84,458	1,990	5,655	87,781
Less stable deposits	-	138,633	10,523	12,052	146,292
Wholesale funding:	-	225,342	14,709	6,303	78,343
Operational deposits	-	-	-	-	-
Other wholesale funding	-	225,342	14,709	6,303	78,343
Liabilities with matching interdependent assets	-	-	-	-	-
Other liabilities:	-	39,626	8,821	31,076	38,114
NSFR derivative liabilities			403		
All other liabilities and equity not included in the above categories	-	39,223	8,821	31,076	38,114
Total available stable financing (ASF)	-	488,059	36,043	116,706	412,150
Required stable financing (RSF) items					
Total NSFR high-quality liquid assets (HQLA)	-	145,423	14,296	56,096	7,936
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Performing loans and securities:	-	78,379	41,559	260,484	272,718
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	-	8,599	2,988	7,384	10,167
Performing loans to non-financial wholesale clients, loans to retail and small business customers, and loans to sovereigns, central banks, and PSEs, of which:	-	65,944	35,369	125,242	156,178
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	12,153	8,184	4,669	13,204
Performing residential mortgages, of which:	-	3,204	3,168	121,728	100,487
With a risk weight of less than or equal to 35% under Proper Conduct of Banking Business Directive 203	-	1,178	1,165	30,839	21,217
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	632	34	6,130	5,886
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	24,031	103	7,445	27,377
Physical traded commodities, including gold	-				-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			135		115
NSFR derivative assets			6,906		6,503
NSFR derivative liabilities before deduction of variation margin posted			200		200
Others	-	16,790	103	7,445	20,559
Off-balance sheet items			183,135		8,290
Total required stable financing (RSF)					316,321
Net stable financing ratio (NSFR) (%)					130%

* 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.

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 March 31, 2023, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable government securities, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 174.8 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 March 31, 2023	**Average in the quarter ended March 31, 2023**
	NIS millions	
Level 1 assets	**172,418**	**171,747**
Level 2A assets	**2,233**	**1,785**
Level 2B assets	**134**	**130**
Total HQLA	**174,785**	**173,662**

	Balance as at March 31, 2022	Average in the quarter ended March 31, 2022
	NIS millions	
Level 1 assets	200,266	200,773
Level 2A assets	1,049	1,534
Level 2B assets	113	148
Total HQLA	201,428	202,455

	Balance as at December 31, 2022	Average in the quarter ended December 31, 2022
	NIS millions	
Level 1 assets	180,690	177,814
Level 2A assets	1,681	1,542
Level 2B assets	167	158
Total HQLA	182,538	179,514

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 controls, 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, 2022.

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). The letter of indemnity and the letter of immunity are extended from time to time; the most recent extension received is until March 31, 2024.

Further to the statements in Note 25F to the Financial Statements as at December 31, 2022, on May 1, 2023, with three years having elapsed from the date of the Deferred Prosecution Agreement ("DPA") and in accordance with the provisions thereof, the United States federal court (in New York) approved, by order, the dismissal of the prosecution and the criminal proceeding against the Bank. The aforesaid order concludes the criminal proceedings against the Bank. On April 30, 2023, the Non-Prosecution Agreement ("NPA") in respect of the FIFA investigation also ended, in accordance with the provisions thereof. For further details, see Note 10C to the Condensed Financial Statements.

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, 2022.

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, 2022.

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, 2022.

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 the Corporate Governance Report.

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, 2022.

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

For additional information regarding economic risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2022.

N. Strategic risk

Strategic risk is the risk of material present and/or future change in profits, capital, reputation, status, and/or other material aspects as a result of a combination of one or more of the following factors: changes in the business environment; faulty business decisions; strategy and strategic goals unaligned with the organization and the environment in which it operates; improper implementation of strategy; failure to respond to changes in the industry, economy, or technology; and other factors that generate this risk.

Strategic risk is a function of the congruence (or non-congruence) of the organization's strategic goals with the environment in which it operates, the adaptation of the business plans developed to achieve these goals, resource allocation, and quality of implementation. As such, this risk constitutes forward-looking information.

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 climate crisis is occupying an ever-growing position on the global agenda. 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 (extreme events), such as floods, storms, heat/cold waves, and wildfires, and/or chronic processes with gradual development over time, 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.

Climate risks may be reflected in the various traditional financial risks accompanying the routine operations of the Bank, such as credit risk, market risk, operational risk, liquidity risk, and other risks, through various micro- and macroeconomic 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 the Bank such as reputational risk, regulatory risk, legal risk, and more. Climate risk is considered a complex and evolving field, in that it comprises, among other matters, systemic risk on a broad, unprecedented global scale; the period in which it may materialize is far longer than the usual range of business planning for banks; and it is characterized by material uncertainty.

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 2022.

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, 2022.

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.

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, 2022.