









































## The credit quality of credit exposures (CR1)

### Credit quality of credit exposure

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
in NIS millions				
September 30, 2021				
Debts, excluding bonds	3,758	206,378	3,124	207,012
Bonds	7	41,534	-	41,541
Off-balance sheet exposure	42	118,806	246	118,602
<b>Total</b>	<b>3,807</b>	<b>366,718</b>	<b>3,370</b>	<b>367,155</b>
September 30, 2020				
Debts, excluding bonds	3,481	192,299	3,645	192,135
Bonds	50	37,847	-	37,897
Off-balance sheet exposure	60	98,055	289	97,826
<b>Total</b>	<b>3,591</b>	<b>328,201</b>	<b>3,934</b>	<b>327,858</b>
December 31, 2020				
Debts, excluding bonds	3,782	193,080	3,762	193,100
Bonds	13	39,498	-	39,511
Off-balance sheet exposure	65	98,759	298	98,526
<b>Total</b>	<b>3,860</b>	<b>331,337</b>	<b>4,060</b>	<b>331,137</b>

For details regarding changes in the balance of impaired debts (CR2) and for the additional disclosure regarding the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 38-40).

## Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

For details regarding credit risk mitigation and mitigating the risk in respect of credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 48-49).

## Credit risk mitigation techniques – Review (CR3)

### Methods for credit risk mitigation - Quantitative disclosure

	Unsecured			Secured					
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
Balance sheet balance				Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance
in NIS millions									
September 30, 2021									
Debts, excluding bonds	170,380	36,632	14,422	30,667	8,457	5,965	5,965	-	-
Bonds	41,541	-	-	-	-	-	-	-	-
<b>Total</b>	<b>211,921</b>	<b>36,632</b>	<b>14,422</b>	<b>30,667</b>	<b>8,457</b>	<b>5,965</b>	<b>5,965</b>	<b>-</b>	<b>-</b>
Of which: Impaired or in arrears of 90 days or over <sup>(1)</sup>	1,169	1,753	938	207	61	1,546	877	-	-
September 30, 2020									
Debts, excluding bonds	159,496	32,639	14,819	24,864	7,044	7,775	7,775	-	-
Bonds	37,897	-	-	-	-	-	-	-	-
<b>Total</b>	<b>197,393</b>	<b>32,639</b>	<b>14,819</b>	<b>24,864</b>	<b>7,044</b>	<b>7,775</b>	<b>7,775</b>	<b>-</b>	<b>-</b>
Of which: Impaired or in arrears of 90 days or over <sup>(1)</sup>	1,097	1,313	848	227	18	1,086	830	-	-
December 31, 2020									
Debts, excluding bonds	159,296	33,804	15,277	25,748	7,221	8,056	8,056	-	-
Bonds	39,511	-	-	-	-	-	-	-	-
<b>Total</b>	<b>198,807</b>	<b>33,804</b>	<b>15,277</b>	<b>25,748</b>	<b>7,221</b>	<b>8,056</b>	<b>8,056</b>	<b>-</b>	<b>-</b>
Of which: Impaired or in arrears of 90 days or over <sup>(1)</sup>	1,090	1,338	792	274	15	1,064	777	-	-

Note:

(1) Not including an accumulating impaired debt in the amount of NIS 443 million (September 30,2020: NIS 632 million, December 31,2020: NIS 635 million)

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

### Exposures according to classes of assets and risk weights

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
in NIS millions									
September 30, 2021									
Sovereigns, their central banks and national monetary authority	81,478	39	-	-	-	-	173	11	81,701
Public sector entities (PSE) which are not central governments	1,666	7,868	-	1,409	-	-	12	-	10,955
Banks (including multilateral development banks)	-	7,514	-	75	-	-	25	-	7,614
Corporations	-	9,902	-	999	-	-	100,863	349	112,113
Retail exposures for private individuals	-	-	-	-	-	30,150	126	-	30,276
Loans to small businesses	-	-	-	-	-	13,207	5	-	13,212
Secured by residential property	-	-	13,868	16,364	11,712	8,363	820	-	51,127
Secured by commercial real estate	-	-	-	-	-	-	4,328	-	4,328
Loans in arrears	-	-	-	-	-	-	538	1,362	1,900
Other assets	2,417	29	-	-	-	-	6,109	1,266	9,821
Of which: in respect of shares	-	-	-	-	-	-	602	916	1,518
<b>Total</b>	<b>85,561</b>	<b>25,352</b>	<b>13,868</b>	<b>18,847</b>	<b>11,712</b>	<b>51,720</b>	<b>112,999</b>	<b>2,988</b>	<b>323,047</b>
September 30, 2020									
Sovereigns, their central banks and national monetary authority	71,124	118	-	-	-	-	127	-	71,369
Public sector entities (PSE) which are not central governments	1,318	7,581	-	1,444	-	-	31	-	10,374
Banks (including multilateral development banks)	-	10,857	-	133	-	-	28	-	11,018
Corporations	-	8,460	-	1,023	-	-	(1)92,603	110	102,196
Retail exposures for private individuals	-	-	-	-	-	28,750	144	-	28,894
Loans to small businesses	-	-	-	-	-	12,915	47	-	12,962
Secured by residential property	-	-	12,354	12,997	6,797	8,951	486	-	41,585
Secured by commercial real estate	-	-	-	-	-	-	(1)3,508	-	3,508
Loans in arrears	-	-	-	-	-	-	629	996	1,625
Other assets	3,146	27	-	-	-	-	5,001	1,251	9,425
Of which: in respect of shares	-	-	-	-	-	-	198	848	1,046
<b>Total</b>	<b>75,588</b>	<b>27,043</b>	<b>12,354</b>	<b>15,597</b>	<b>6,797</b>	<b>50,616</b>	<b>102,604</b>	<b>2,357</b>	<b>292,956</b>
December 31, 2020									
Sovereigns, their central banks and national monetary authority	76,027	46	-	-	-	-	107	38	76,218
Public sector entities (PSE) which are not central governments	1,537	7,540	-	1,274	-	-	54	-	10,405
Banks (including multilateral development banks)	-	10,436	-	93	-	-	33	-	10,562
Corporations	-	8,762	-	722	-	-	(1)90,506	115	100,105
Retail exposures for private individuals	-	-	-	-	-	28,712	119	-	28,831
Loans to small businesses	-	-	-	-	-	12,978	29	-	13,007
Secured by residential property	-	-	12,559	13,568	7,486	8,904	579	-	43,096
Secured by commercial real estate	-	-	-	-	-	-	(1)4,214	-	4,214
Loans in arrears	-	-	-	-	-	-	596	1,017	1,613
Other assets	2,601	52	-	-	-	-	5,302	1,202	9,157
Of which: in respect of shares	-	-	-	-	-	-	257	848	1,105
<b>Total</b>	<b>80,165</b>	<b>26,836</b>	<b>12,559</b>	<b>15,657</b>	<b>7,486</b>	<b>50,594</b>	<b>101,539</b>	<b>2,372</b>	<b>297,208</b>

Footnote:

(1) Improvement of the data.

## Counterparty credit risk

For a qualitative disclosure related to counterparty credit risk (CCRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 53–55).

### Drafts and Instructions published during the third quarter of 2021

**Draft Directive regarding the standardized approach for measuring counterparty credit risk exposures.** In March 2014, the Basel Committee on Banking Supervision (BCBS) issued, inter alia, a Directive regarding the "The standardized approach for measuring counterparty credit risk exposures SA-CCR". In October 2021, the Supervisor of Banks published a draft update to Proper Conduct of Banking Business Directive No. 203A, which includes guidelines for the treatment of counterparty credit risk in accordance with the SA-CCR. The applicable date as from July 1, 2022. The said approach replaces the approaches existing in Proper Conduct of Banking Business Directive No. 203 (the present exposure approach and the standardized approach) for the calculation of exposure to a counterparty in the case of default (EAD). The principal changes in the new approach relate to a different treatment of the offsetting layout, which include agreements for the matching of margins to offsetting layouts that do not include margin matching agreements, updated regulatory risk coefficients and the distribution of derivative exposure in offsetting layouts to hedge layouts, allowing offsetting of exposure in full or in part.

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

	Replacement cost	Potential future exposure	EAD after CRM	RWA
in NIS millions				
September 30, 2021				
Current exposure method	1,808	2,012	3,434	1,869
The comprehensive approach to credit risk mitigation (for securities financing transactions SFT)	-	-	2,470	1,324
<b>Total</b>	<b>1,808</b>	<b>2,012</b>	<b>5,904</b>	<b>3,193</b>
September 30, 2020				
Current exposure method	1,989	1,693	3,361	2,204
The comprehensive approach to credit risk mitigation (for securities financing transactions SFT)	-	-	1,411	732
<b>Total</b>	<b>1,989</b>	<b>1,693</b>	<b>4,772</b>	<b>2,936</b>
December 31, 2020				
Current exposure method	2,350	1,575	3,204	2,034
The comprehensive approach to credit risk mitigation (for securities financing transactions SFT)	-	-	1,741	667
<b>Total</b>	<b>2,350</b>	<b>1,575</b>	<b>4,945</b>	<b>2,701</b>

## Credit valuation adjustment (CVA) capital charge (CCR<sub>2</sub>)

	EAD after CRM	RWA
	in NIS millions	
	September 30, 2021	
<b>Total portfolios for which CVA is calculated according to the standardised approach</b>	<b>3,356</b>	<b>1,542</b>
	September 30, 2020	
<b>Total portfolios for which CVA is calculated according to the standardised approach</b>	<b>3,181</b>	<b>2,023</b>
	December 31, 2020	
<b>Total portfolios for which CVA is calculated according to the standardised approach</b>	<b>3,160</b>	<b>1,763</b>

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

## Market Risk

For the general qualitative disclosure regarding market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 58-61).

### Quantitative disclosure

#### (1) Limitations set by the Board of Directors

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 61).

During the third quarter, the update of the market and investment risk management policy had been approved with an increase in the risk appetite relating to interest exposure.

#### (2) Interest Risk Exposure

##### General

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

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

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

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

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information regarding exposure to market risk" below.

The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

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

Assets	Affect of 100 BP as of	Affect of 100 BP as	Liabilities	Affect of 100 BP as of	Affect of 100 BP as of
	September 30, 2021	of December 31, 2020		September 30, 2021	December 31, 2020
in NIS millions					
Credit	2,595	2,343	Deposits	904	918
Available-for-sale securities portfolio	1,356	1,308	Debt notes	315	329
Trading securities portfolio	(12)	10	Off balance-sheet	225	301
Held-to-maturity securities portfolio	437	357	Current account spreading	2,005	2,108
Off balance-sheet	-	-	Employees rights	329	318
Other	28	42	Other	-	-
<b>Total</b>	<b>4,404</b>	<b>4,059</b>	<b>Total</b>	<b>3,778</b>	<b>3,974</b>

**(3) Additional information – models and risk indices**

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 63–66).

**Principal indices for management**

**Index for the sensitivity of economic value to changes in interest rates.** For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 64).

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

	For the period ended on			
	September 30, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
in NIS millions				
Actual exposure	(626)	(636)	(85)	(625)
Limitation set by the Board of Directors	(1,477)		(1,184)	
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

**The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios.** For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 64).



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

	For the period ended on			
	September 30, 2021		December 31, 2020	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(585)	(598)	(864)	(902)
Limitation set by the Board of Directors	(1,477)		(1,281)	

In the course of the second quarter, the Bank updated the parameters used to compute the scenario, and in consequence thereof, the impact of the scenario decreased by approx. NIS 200 million.

**Indices and additional models****The Value at Risk (VaR)**

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

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the third quarter of 2021.

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

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

	Third quarter		Year end	
	2021		2020	
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	4.9	18.4	5.4	7.0
Limitation set by the Board of Directors	30		30	

Footnote:

The VaR calculated for 1 business day and profitability of 99%.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 65-66).

For details regarding loss analysis in extreme scenarios (Stress Tests) and analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 66).

**(4) Inflation and exchange rate exposure**

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

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements as of December 31, 2020. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).

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

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

The exposure is measured separately for each material currency.

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

		Third quarter 2021				Year 2020			
		Position range							
Segment	Limitation	Year end	From	To	Average	Year end	From	To	
CPI linked*	(50%)-50%	14.6%	14.6%	16.1%	15.4%	6.1%	2.7%	6.1%	
Foreign currency	30% - 15%	18.6%	18.5%	18.7%	18.6%	19.2%	21.1%	19.2%	

Footnote:

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

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

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

**(5) Management of positions in the trading portfolio**

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

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

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

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

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

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

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

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2021.

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

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

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

	September 30, 2021	December 31, 2020
	in NIS millions	
Not for trading derivatives	37,531	34,809
Of which: hedging derivatives	3,931	4,123
Trading derivatives	303,366	268,715
<b>Total</b>	<b>340,897</b>	<b>303,524</b>

**Accounting aspects.** The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2020 (pp. 143-144, 238-244).

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

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

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements as of December 31, 2020 (p. 153) and Note 3 to the condensed financial statements as of September 30, 2021.

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

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

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2021.

## Market risk according to the standardized approach (MR1)

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

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

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

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

	Capital allocation as of	
	September 30, 2021	June 30, 2021
	In NIS millions	
Interest rate risk*	422	391
Foreign exchange rate risk	13	22
Share risk		1
Option risk	5	8
<b>Total for the Banking Group</b>	<b>441</b>	<b>422</b>
<b>Allocation in risk asset terms</b>	<b>3,836</b>	<b>3,615</b>

\* Including the specific risk in the amount of NIS 2.6 million and NIS 2.3 million in September 2021 and June 2021 respectively.

The allocation to market risks in risk asset terms comprises approx. 2.02% of the total risk assets as of September 30, 2021, compared with approx. 1.73% as of December 31, 2020.

## Interest rate risk in the banking book (IRRBB)

For details regarding behavioral economic models integrated in risk management and regarding behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 69–70).

For quantitative information regarding interest risk in the banking book and the trading book, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 70–71).

## Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 71–72).

## Liquidity risk

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

### The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	September 30, 2021		December 31, 2020	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
<b>Total high quality liquid assets</b>				
Total high quality liquid assets (HQLA)		66,886		64,815
<b>Cash outflows</b>				
Retail deposits from individuals and small businesses, of which:	142,329	9,972	139,490	9,374
Stable deposits	50,274	2,478	46,400	2,283
Less stable deposits	64,915	6,679	58,999	6,068
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	27,140	814	34,091	1,022
Unsecured wholesale financing, of which:	88,787	51,891	78,390	46,315
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	1	-	-	-
Deposits not for operational purposes (all counterparties)	87,119	51,811	76,403	46,152
Unsecured debts	1,667	79	1,986	162
Secured wholesale financing	-	18	-	1
Additional liquidity requirements, of which:	81,217	18,173	77,433	18,814
Cash outflows in respect of exposure to derivatives and other collateral requirements	10,028	9,328	11,277	10,384
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	71,189	8,845	66,156	8,430
Other contractual financing commitments	29,782	868	25,598	823
Other conditional financing commitments	2,517	88	2,451	86
<b>Total cash outflows</b>		<b>81,008</b>		<b>75,411</b>
<b>Cash inflows</b>				
Secured loans (e.g., Reverse repo transactions)	968	968	577	577
Cash inflows from regularly performing exposure	22,746	18,888	24,002	20,201
Other cash inflows	11,701	9,731	13,153	10,697
<b>Total cash inflows</b>	<b>35,415</b>	<b>29,587</b>	<b>37,732</b>	<b>31,475</b>
		Total adjusted value		Total adjusted value
<b>Total High Quality Liquidity Asset (HQLA)</b>		<b>66,886</b>		<b>64,815</b>
<b>Total net cash outflows</b>		<b>51,421</b>		<b>43,936</b>
Liquidity Coverage Ratio		130.1%		147.5%

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

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 73–78).

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

For details regarding the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 76–77).

### The liquidity coverage ratio of the Discount Group

As of September 30, 2021, the ratio amounted to 122.9%, compared to 143.9% on December 31, 2020. The average liquidity ratio in the third quarter of 2021 amounted to 130.07% as compared with an average ratio of 147.5% in the fourth quarter of 2020.

The liquidity ratio declined, due to the fact that the growth in the credit portfolio was faster than the growth in retail and wholesale deposits.

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

#### Details of the composition of the liquidity buffer

	Assets included	For the period ended	
		September 30, 2021	December 31, 2020
in NIS millions			
Buffer 1	Cash	36,374	33,088
	Israel Bonds/Short-term loans (MAKAM)	19,352	22,001
	Foreign bonds	9,601	8,057
Buffer 2	Sovereigns bonds	366	702
	Mortgage bonds issued by public corporations	238	8
	Corporation Bonds AA	692	798
Buffer 2 b	Corporation Bonds A	263	161
<b>Total</b>		<b>66,886</b>	<b>64,815</b>

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

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

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

	For the period ended	
	September 30, 2021	December 31, 2020
	In %	
Discount Group	130.1%	147.5%
The Bank	141.5%	165.4%
IDB Bank	112.7%	124.9%
Mercantile Discount Bank	130.8%	155.8%
<b>Total</b>	<b>130.1%</b>	<b>147.5%</b>

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

#### The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of September 30, 2021 the coverage ratio in shekels was 107.4% compared with 137.6% at December 31, 2020. The decrease in the ratio stemmed from the growth in the credit portfolio, which was faster than the growth in retail and wholesale deposits, and in the effect of the shekel/dollar SWAP activity.

The liquidity coverage ratio as of September 30, 2021, respecting the total of foreign currencies, amounted to 253.7% compared to 174.6% on December 31, 2020. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/shekel SWAP activity.

The liquidity coverage ratio with respect to US dollars as of September 30, 2021 was 233.9% as compared with 158.7% on December 31, 2020. The increase in the ratio stemmed from a decrease in the net cash outflow relating to the dollar/ shekel SWAP activity.

In Euros, the liquidity coverage ratio at September 30, 2021, was 131.0% compared with 126.8% at December 31, 2020. The main factor causing the increase was the decline in the net cash outflow, derived from foreign currency/shekel SWAP transactions.

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

## Financing risk – available and unrestricted assets

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

### Available and unrestricted assets

	September 30, 2021	December 31, 2020
	in NIS millions	
Total assets as of	98,437	89,808
Liquidity requirement	9,880	8,498
Of which pledged	19,747	15,104
Of which provided as collateral	1,221	871
<b>Total available assets</b>	<b>67,589</b>	<b>65,336</b>

## Additional risks

### Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details regarding operational risks, including risk of fraud and embezzlement, business continuity and outsourcing and supplier risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 79-84).

### Other risks

#### Information technology risk management

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 85-86).



## Data and cyber protection risks

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### Threats in the cyberspace

In the third quarter of 2021, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

Two outstanding trends were noted in the first nine months of 2021:

- The Iranian Government acted through subcontractors, with the aim of impairing the Israeli economy. This by way of ransom ware attacks having a double target: financial component – the payment of ransom to the attacking agent, and a national component – embarrassment of the victim on the social networks and on the different media channels (thus embarrassing the State of Israel);
- Complexity of the manner of inserting the ransom ware – we are recently witnessing the utilization of unidentified deficiencies existing in complex technological systems, for which the manufacturers have not yet issued data protection updates, with the aim of inserting a ransom ware virus into the systems of a large number of organizations at the same time. This trend may affect the Group, both by damaging one or more material suppliers and by damaging one of the systems in use by the Group.

For additional details regarding data and cyber protection risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 87–88).

## Environmental risks

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 89).

On February 3, 2021, a questionnaire was sent to the banks with respect to environmental risks, the answers to it will serve as a basis for the continuation of discussions with risk managers at the banking corporations. The Bank has responded to the Supervisor of Banks, and the results of the questionnaire would comprise a basis for discussions with the Supervisor towards the possible future regulation in the matter. The regulation to be formed is expected to be based upon globally accepted regulation principles, while aspiring to achieve optimal match of the international regulation and expectations to the local environment.

The Chapter regarding environmental risks, being part of the annual review of the banking system in Israel, conducted by the Bank of Israel, was published on May 26, 2021. The Chapter extensively describes the development of monitoring environmental risks existing in the Israeli banking system, as well as the regulatory anticipation regarding the manner of reporting five major issues: corporate governance, strategy, risk management, scenario analysis and stress tests and disclosure.

The Bank is studying the subject in order to prepare for the rise in level of managing environmental risks, climate risks and transition risks, while examining international management and reporting frameworks.

## Legal risks

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 89–91).

## Compliance risks

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**Discount Group's activities with banks acting in the Palestinian Authority.** In 2018, the Bank received immunity letter and indemnity letter signed by the State of Israel. Validity of the letters of indemnification and immunity has

been extended from time to time. Validity of the letters of indemnification and immunity were extended in July 2021 until July 15, 2022. This on the background of the delay in the start of operations of the Government Correspondence Company.

For additional details regarding Discount Group's activities with banks acting in the Palestinian Authority, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pg. 93-94).

## Conduct risk

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 94).

## Exposure to cross-border risks

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 95-97).

In the past year, the Bank had examined the activity of the Group in the matter of cross-border risk management with respect to foreign resident customers, as well as its policy in the matter. Following the said examination, the policy has been updated in a way that reduces the types of banking services granted by the Bank to residents of different European countries, this, in a risk based approach. Presently, the Bank is studying the possibility of applying the updated policy also to residents of non-European countries.

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

## Strategic risk

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 98).

## Reputation risk

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For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 98-99).

## Remuneration to senior officers

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For details regarding remuneration to senior officers, in accordance with the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2020 Annual Report (pp. 326-329).

## Addendums

For details regarding linkages between the financial statements and regulatory amounts, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (pp. 106–115). For details regarding Securitization, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2020 Annual Report, and is open for review, as stated (p. 116).

November 22, 2021    Shaul Kobrinsky  
Chairman of the  
Board of Directors

Uri Levin  
President &  
Chief Executive Officer

Avi Levi  
Senior Executive Vice President  
Chief Risk Officer

## Glossary

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

## Glossary (continued)

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