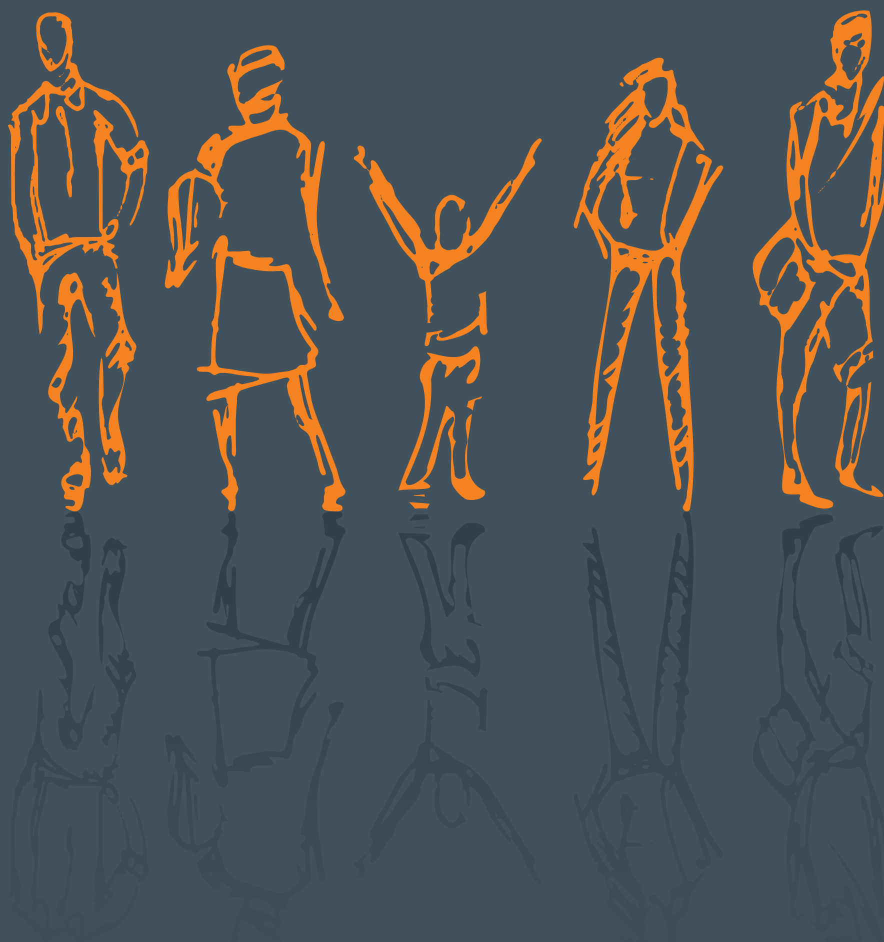
RISK MANAGEMENT REPORT AS OF 30.09.2021 3



Advanced banking for people, by people.

This report includes supplementary information to the Bank's financial statements and is prepared in accordance with the Supervisor of Banks' directives, which include disclosure requirements from Basel Pillar III and additional disclosure requirements by the Financial Stability Board (FSB). The Israel Securities Authority's MAGNA website includes the following reports: Condensed financial statements of interim periods, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these reports, including XBRL format, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports.

Bank Mizrahi Tefahot

Risks report for the third quarter of 2021

This translation of the financial statement is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

This report includes additional information to the Bank's financial statements and is compiled in conformity with directives of the Supervisor of Banks, which include disclosure requirements of Basel Pillar 3 and additional disclosure requirements of the Financial Stability Board (FSB).

The following reports are available on ISA's MAGNA website: This Risks Report and other supervisory information about supervisory capital instruments issued by the Bank (hereinafter: "the Reports"). In conformity with instructions of the Supervisor of Banks, the condensed financial statements for the interim period and the aforementioned Reports are also available on the Bank website:

www.mizrahi-tefahot.co.il > about the bank > investor relations > financial statements

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Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its subsidiaries as of September 30, 2021. The condensed financial statements and additional information to the condensed financial statements, including the Report of the Board of Directors and Management, this Risks Report and other supervisory disclosures have been approved for publication by the Bank's Board of Directors at its meeting held on November 15, 2021.

The Risks Report and other supervisory disclosures are compiled in conformity with directives of the Supervisor of Banks, which include disclosure requirements of Basel Pillar 3, disclosure requirements published by the Financial Stability Board (FSB) and other disclosure requirements of the Financial Stability Board (FSB).

Pursuant to the Public Reporting Regulations of the Supervisor of Banks, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose quarterly analysis and presentation are material for readers of the report.
If needed, this report should be read in conjunction with the 2020 Risks Report.

The disclosure in this report is designated to allow users to evaluate significant information included with regard to implementation of the framework for capital measurement and capital adequacy and to implementation of provisions of "Basel III: A global regulatory framework for more resilient banks and banking systems".

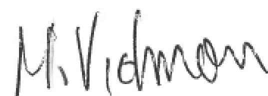
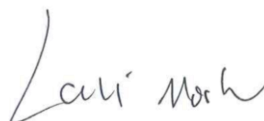
All of these reports are also available on the Bank's website.

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

As directed by the Supervisor of Banks, additional information with regard to risks is provided in the Report of the Board of Directors and Management in the financial statements as of September 30, 2021, in the following chapters:

- Chapter "Overview, targets and strategy" / major risks
- Chapter "Explanation and analysis of results and business standing" / Key and emerging risks
- Chapter "Risks Overview"

In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.

Moshe Vidman	**Moshe Lari**	**Doron Klauzner**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Risks Officer (CRO)

Approval date of the financial statements and the Risks Report:
Ramat Gan, November 15, 2021

Forward-Looking Information

Some of the information in the Risks Report, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to a large number of factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; expectation of changes and developments in the currency markets and the capital markets, forecasts related to other factors affecting the exposure to financial risks, forecasts of changes in the financial strength of borrowers, the public’s preferences, changes to legislation and supervisory regulations, the behavior of competitors, the Bank’s image, technological developments and human resources developments.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, as mentioned above so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Key supervisory ratios and overview of risk management and risk assets

Key supervisory ratios – key data

Below is key data relevant for the Bank's risk profile (NIS in millions):

	2021			2020			
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Key supervisory and financial ratios							
Available capital							
Tier I capital[1]	22,099	21,783	20,708	20,137	19,708	17,033	16,718
Tier I capital before effect of transitional provisions	22,045	21,709	20,607	20,017	19,571	16,956	16,653
Total capital	30,268	30,267	27,373	27,313	26,488	22,999	22,521
Total capital before effect of transitional provisions	29,767	29,746	26,825	26,300	25,458	22,029	21,563
Risk weighted assets							
Total risk weighted assets (RWA)	211,706	206,779	203,936	200,484	197,502	170,992	169,001
Capital adequacy ratio (in %)							
Tier I capital ratio[1]	10.44	10.53	10.15	10.04	9.98	9.96	9.89
Tier I capital ratio before effect of transitional provisions	10.41	10.50	10.10	9.98	9.91	9.91	9.85
Total capital ratio	14.30	14.64	13.42	13.62	13.41	13.45	13.33
Total capital ratio before effect of transitional provisions	14.06	14.38	13.15	13.11	12.89	12.88	12.75
Tier I capital ratio required by Supervisor of Banks	8.60	8.63	8.66	8.68	8.71	8.79	8.82
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks	1.84	1.90	1.49	1.36	1.27	1.17	1.07
Leverage ratio							
Total exposure	411,555	406,235	401,308	388,370	376,614	317,759	309,863
Leverage ratio (in %)[2]	5.37	5.36	5.16	5.19	5.23	5.36	5.40
Leverage ratio before effect of transitional provisions (in %)	5.36	5.34	5.13	5.15	5.20	5.34	5.37
Liquidity coverage ratio[3]							
Total high-quality liquid assets	91,377	88,745	84,754	78,145	59,709	53,992	49,568
Total outgoing cash flows, net	72,679	66,992	63,729	58,769	46,783	44,280	42,300
Liquidity coverage ratio (in %)	126	132	133	133	128	122	117
Performance benchmarks							
Net profit return on equity[4][5]	17.3	21.3	14.9	11.4	9.5	9.0	9.1
Profit return on risk assets[5][6]	1.63	1.94	1.34	1.02	0.89	0.85	0.86
Deposits from the public to loans to the public, net	117.0	115.8	117.7	115.8	114.2	108.1	106.2
Key credit quality benchmarks							
Ratio of provision for credit losses to total loans to the public	0.83	0.86	0.96	0.98	0.95	0.96	0.91
Balance of provision for credit losses, including estimated credit losses in balance of loans to the public at Union Bank, as percentage of loans to the public	0.91	0.95	1.07	1.11	1.09	–	–
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.06	1.07	1.23	1.18	1.20	1.34	1.41
Expenses with respect to credit losses to loans to the public, net for the period[5]	(0.06)	(0.38)	0.02	0.19	0.59	0.50	0.66
Of which: With respect to commercial loans other than residential mortgages	(0.11)	(0.80)	0.16	0.49	0.87	1.17	1.55
Of which: With respect to residential mortgages	(0.02)	(0.14)	(0.06)	0.02	0.44	0.15	0.19
Ratio of net accounting write-offs to average loans to the public[5]	0.03	0.04	0.06	0.06	0.13	0.15	0.16

	First nine months		All of
	2021	**2020**	**2020**
Performance benchmarks			
Net profit return on equity[(4)(5)]	17.1	9.0	9.5
Profit return on risk assets[(5)(6)]	1.64	0.87	0.89
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period[(5)]	(0.13)	0.57	0.43
Of which: With respect to commercial loans other than residential mortgages	(0.25)	1.18	0.86
Of which: With respect to residential mortgages	(0.07)	0.26	0.18
Ratio of net accounting write-offs to average loans to the public[(5)]	0.04	0.16	0.12

Financial ratios indicate as follows:

- Net profit return on equity in the first nine months of this year reached 17.1%, against the background of higher revenues, due to increase in business, and to revenues with respect to decrease in provisions for credit losses.
- In the first nine months of 2021, revenues with respect to provision for credit losses amounted to NIS 263 million, primarily due to decrease in the group-based provision, against the background of improved macro-economic data and decrease in loan amount subject to repayment deferral.
- The ratio of Tier I capital to risk components increased to 10.44%. The minimum ratio required of the Bank is 8.60% (the minimum ratio without relief granted due to the Corona Virus crisis is 9.60%).

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

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(1) The Bank has no capital instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.
(2) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(4) Net profit attributable to shareholders of the Bank.
(5) Calculated on annualized basis.
(6) Net profit to average risk assets.

Below is the capital for calculating the capital ratio after supervisory adjustments and deductions:

	As of September 30, 2021	As of September 30, 2020	As of December 31, 2020
Tier I shareholders' equity	22,099	19,708	20,137
Tier II capital	8,169	6,780	7,176
Total capital	**30,268**	**26,488**	**27,313**

Total credit risk to the public[(1)]:

	September 30, 2021	September 30, 2020	December 31, 2020
Total credit risk to the public	**347,356**	**323,502**	**332,480**

(1) For more information about total credit risk to the public, see the chapter "Risks overview" in the Report by the Board of Directors and Management.

Risk assets and capital requirements with respect to credit risk, market risk, CVA risk and operational risk**Risk assets and capital requirements with respect to credit risk, market risk, CVA risk and operational risk are as follows:**

	As of September 30, 2021		As of September 30, 2020		As of December 31, 2020	
	Weighted risk asset balances	Capital requirement[(1)]	Weighted risk asset balances	Capital requirement[(2)]	Weighted risk asset balances	Capital requirement[(3)]
Credit risk	195,442	22,475	182,296	20,963	184,905	21,263
Market risk	2,115	243	2,022	233	2,228	256
CVA risk with respect to derivatives[(4)]	494	57	536	62	487	56
Operational Risk[(5)]	13,655	1,570	12,648	1,455	12,864	1,479
Total risk assets	**211,706**	**24,345**	**197,502**	**22,713**	**200,484**	**23,054**

(1) The capital requirement was calculated at 11.5% of risk asset balances. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 9 to the financial statements.
(2) The capital requirement was calculated at 11.5% of risk asset balances.
(3) The capital requirement was calculated at 11.5% of risk asset balances.
(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(5) Capital allocation with respect to operational risk was calculated using the standard approach.

Bank approach to risk management (OVA)

General information regarding management of various risks and the risk profile

The Bank operates in conformity with directives of the Supervisor of Banks with regard to risk management and control, and in conformity with Proper Conduct of Banking Business Directives, and in particular with Directive 310 "Risks Management", which is based on the Basel Committee recommendations, which specifies the principles for risks management and control in the Israeli banking system and stipulates the standards required of the banks for creating their risks management and control framework in line with regulatory requirements, the Bank's risk profile, risk strategy and its business targets. All policy documents for risk management and control at the Bank are based on these basic principles.

The risks management and control framework at the Bank, as recommended by the Basel Committee, specifies three pillars:

Pillar 1 – minimum capital – minimum capital allocation requirements with respect to credit risk, market risk and operational risk calculated by standard models.

Pillar 2 – Supervision and control process over capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the Bank, as well as the Supervisory Review and Evaluation Process (SREP).

Pillar 3 – "market discipline" – reporting and disclosure to the regulating authority and to the public.

Efficient, comprehensive risks management is a key foundation for ensuring the Bank's stability over time. Risks management and control processes at the Bank and at the Group are designed to identify, manage, monitor, quantify, avoid and mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. The Bank is exposed to diverse risks which may potentially impact its financial results and its image. The Bank exposed to financial risks, such as: credit risks, liquidity risk and market and interest risks, as well as non-financial risks, such as: compliance and regulatory risk, operational Risk (including IT risk and information and cyber security risk), legal risk, reputational risk and other risks.

Risks management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with regulatory requirements, so as to support achievement of the Group's strategic objectives, while assuming risks in an informed manner and maintaining a risk level in line with the overall risk appetite specified by the Bank’s Board of Directors.

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. Risk appetite is defined in qualitative and quantitative terms in the normal course of business and under stress scenarios, and is based on the risk strategy and on basic principles of the Bank's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives and on results of the various stress scenarios tested by the Bank.

Risk tolerance is a specific determination of risk levels for all risks to which the Bank is exposed. Risk levels are determined by a range of qualitative and quantitative benchmarks, in support of achieving the business goals, while keeping the Bank within the overall limits of the specified risk appetite and subject to strict regulatory restrictions. These risk restrictions, on aggregate, reflect the risk appetite and the overall risk level which the Bank is willing and able to assume.

Union Bank merger

On August 30, 2020, the Bank issued a proposed exchange tender for Union Bank shares, which closed on September 30, 2020. In conjunction with the tender offer, the Bank acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank.

On November 29, 2020, the Bank and Union Bank signed an agreement for merger of Union Bank with and into the Bank, such that as from the date when the Registrar of Companies shall provide to the Bank a certificate evidencing the merger, and subject to fulfillment of all suspensive conditions for the merger, as set forth in the merger agreement ("the Closing Date"), the Bank shall receive all assets, rights and liabilities of Union Bank as-is, retroactively as from December 31, 2020, such that immediately after the Closing Date, the Bank shall have all rights and obligations of Union Bank as they were immediately prior to December 31,

2020, and such transfer shall be deemed to have been made on December 31, 2020. The merger shall take place without any consideration paid nor payable to the Bank and/or to Union Bank, directly nor indirectly, in cash or in kind, due or with respect to the merger. The Bank Board of Directors resolved to approve the merger after discussion and review of the financial standing of the Bank and of Union Bank, and has determined that with due attention to the financial standing of the Bank and of Union Bank, the Board assumes that there is no reasonable concern that due to the merger, the Bank would not capable of meeting its obligations to its creditors, and based on other reasons cited in the Bank's report of the merger dated November 29, 2020.

On December 31, 2020, the Bank announced a resolution to merge Union Bank Issuance Ltd. Into Mizrahi Tefahot Issuance Ltd., subject to fulfillment of suspensive conditions set forth in the merger agreement between these two entities, hence completion of this agreement is uncertain. Furthermore, on November 8, 2020, Mizrahi Tefahot Trust Company Ltd. Announced it has signed a merger agreement with Union Bank Trust Company Ltd. The merger certificate was received on May 2, 2021 and the Trust Company reported the dissolution of Union Bank Trust Company Ltd., which was merged into Mizrahi Tefahot Trust Company Ltd.

Underlying the merger of the sixth largest bank in Israel with and into the Bank, the joining of Union Bank allows the Bank Group to make a significant step forward in market share of various operating areas, with improvement to the mix of sources and uses and increased competitiveness. Union Bank's lending operations in the various segments diversifies Mizrahi-Tefahot's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment. The acquisition would allow for economies of scale at the merged bank and would result in operational cost savings.

The Union Bank merger is an integral part of the Bank's new strategic plan. The merger transaction is a material, large-scale and highly complex process which entails a wide range of risks. The merger process was launched in the fourth quarter of 2020 and is carried out by several extensive joint work teams of Bank Mizrahi Tefahot and Union Bank, managed by a steering committee headed by the Bank President & CEO, with administrations established to carry out the merger plan and a special Board committee established to supervise this process. Risk management is an integral and dynamic part of all work teams, and the Group's Chief Risks Officer reviews and integrates all risks of the merger process and the measures applied to reduce and manage such risk. The process of client transition started in the second quarter of this year and is gradual, as the number of branches and clients is expanded. The Bank's Risk Control Division and Internal Audit regularly accompany and conduct control and lesson learning processes. Accopmanying the Union Bank merger process includes current management of the risk map, applying comprehensive second-line operating controls and regular quarterly review of the status of all comprehensive controls applied by the various lines of defense at Bank Mizrahi Tefahot and at Union Bank. Risks Control also conducts a comprehensive process of lesson learning upon completing each conversion round; the conclusions from this process are brought for discussion by Bank management, by the Union Bank Merger Board committee and are submitted to the Bank of Israel.

Union Bank has a long-standing contract with Bank Leumi for obtaining IT and operating services, which has been extended from time to time. On May 12, 2020, the Board of Directors of Union Bank approved contracting an addendum to the agreement, whereby the parties agreed, *inter alia*, that the agreement would be extended through December 31, 2022.

The Bank manages the merger process gradually and separately from current business, in order to allow for achievement of the work plan targets concurrently with the merger process.

The Technology Division runs a program consisting of multiple projects designed to transfer Union Bank activity that is based on Bank Leumi and Union Bank systems and integrating them with the Bank's systems. These projects include conversion of clients, products, historical information, reports and so forth.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information about acquisition of Union Bank, see Note 35 to the 2020 financial statements.

Effect of the Corona Virus outbreak

In the third quarter of 2021, the Bank continued its operating routines in conformity with current guidance issued by the Ministry of Health, and in line with Government policy on operations alongside the Corona

Virus. Concurrently, the Bank continued to monitor cases of morbidity or infection at branches and at headquarters units. Note that to date, the Bank has maintained appropriate business continuity during the Corona Virus crisis.

Note that in 2021 to date, total provision for credit losses decreased, primarily due to decrease in the group-based provision, in view of the economic recovery and resuming normal operations and the significant decrease in loan amount subject to repayment deferral. Macro-economic data, including lower unemployment, higher growth forecast for 2021 and purchases using credit cards, all indicate recovery in on-going economic activity.

In 2021 to date, the Bank continued to apply measures in response to client needs arising from the situation. Action taken by the Bank includes deferral of current repayments for clients in conformity with the Bank of Israel outline, and extended State-guaranteed loans from State-guaranteed foundations, as part of the economic assistance program announced by the State. The Bank has also acted to expand digital support for loan management processes, including repayment deferral (an improved process was applied during the crisis, which provided optimal response to client applications).

As of September 30, 2021, out of all residential mortgages subject to deferral, some NIS 43.7 billion resumed payment (of which NIS 7 billion chose the partial payment track in conformity with the Bank of Israel outline). NIS 0.1 billion is still subject to full delay, essentially ending through 2021. As of September 30, 2021, out of all loans for which repayment has resumed, only NIS 0.5 billion are in arrears.

As of September 30, 2021, out of all other (non-housing) loans subject to deferral, NIS 4.4 billion resumed repayment and NIS 0.6 billion are still subject to deferral, mostly expected to end in 2021. As of September 30, 2021, out of all loans for which repayment has resumed, only NIS 0.1 billion are in arrears.

As of September 30, 2021, the balance of loans provided by the Bank from State-guaranteed funds amounted to NIS 5.0 billion. Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of September 30, 2021 amounted to NIS 4.9 billion.

For more information about loans subject to repayment deferral and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

The Bank has conducted a comprehensive lesson learning process from the Corona Virus crisis, across all Bank divisions – the findings of this process were discussed by the Board of Directors in May 2020. Recommendations were made for implementation in various areas, as well as recommendations for improving processes and procedures with regard to business continuity. The Bank continues to monitor and report the implementation of these recommendations at quarterly intervals.

Following the Corona Virus crisis and further to Proper Conduct of Banking Business Directive 250 regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)" (hereinafter: "the Interim Directive"), on April 13, 2020 the Bank Board of Directors resolved that the Bank would avoid any dividend distribution (including buy-back of Bank shares) for as long as the Interim Directive in in effect. Note, in this regard, that the Interim Directive, as amended, stipulates that the Interim Directive is valid through September 30, 2021. On July 26, 2021, the Supervisor of Banks announced that even while the interim directive is in effect, dividends may be distributed with respect to 2020 earnings, and that dividend distribution in excess of 30% of net income for 2020 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on August 16, 2021 a dividend distribution amounting to NIS 483 million, or 30% of 2020 earnings.

On September 30, 2021, the Supervisor of Banks extended the interim directives (in addition to certain adjustments) by a further 3 months, through December 31, 2021, and announced that dividend distribution is allowed also with respect to 2021 earnings (even when the interim directive is in effect), and that distribution of dividend in excess of 30% of net earnings in 2021 would not be deemed careful, conservative capital planning. Consequently, the Bank Board of Directors approved on November 15, 2021 a dividend distribution amounting to NIS 752.7 million, or 30% of earnings in the first nine months of 2021.

For more information see chapter Capital, capital adequacy and leveragein the Bank's Report of the Board of Directors and Management.

General mapping of risk factors and their impact

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Medium	Manager, Corporate Division
Risk from quality of borrowers and collateral	Medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk(1)	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML and terror financing risk	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk(2)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(3)	Low-medium	President & CEO

(1) Includes options and shares risk mapped at Union Bank.
(2) The risk of impairment of the Bank's results due to negative reports about the Bank.
(3) The definition of business-strategic risk includes the capital planning and management process.

The impact of the various risks factors to which the Bank is exposed, set forth in the table above have been determined based on management assessment, as provided from time to time and includes risk associated with the Union Bank merger, which does not materially change the Group's overall risk level. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the expected direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Risk Managers.

The risk is in line with the risk appetite guidelines specified by the Bank.

Due to implications of the global Corona Virus pandemic, the Bank's overall risk profile increased in early 2020, due to increased credit risk.

Since early 2021, the state of the economy has improved significantly, as reflected by key benchmarks (such as: lower inflation rate and higher growth forecasted in 2021), with the recovery evident across all economic sectors. Despite improvement in the state of the economy, assessment of commercial credit risk in the third quarter of 2021 remained unchanged compared to previous quarters, due to the remaining uncertainty with regard to continuing implications of the Corona Virus crisis.

The overall impact of credit risk and risk associated with quality of borrowers and collateral was Medium, a risk level reflecting the risk of effect of the Corona Virus crisis on the private segment, and to a larger extent on the business segment, primarily small and medium businesses.

The risk level in the residential mortgage portfolio decreased in the second quarter of 2021 to its pre-crisis level of Low risk, in view of the significantly lower volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments and the low, steady readings of key risk benchmarks. The Bank continued to monitor this activity and risk aspects with regard to the following: The outstanding deferral amount and the partial repayment rates, deferral period, borrower profile, LTV ratio and so forth. The

Bank also monitors development of borrower behavior after expiration of the repayment deferral. For more information about loans subject to repayment deferral and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

Technology risk and cyber and information security risk are material risks for the Bank and the potential damage due to materialization of such risk may be significant, during routine operations and even more so during an emergency. Activity is managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on changing needs in line with the Bank's business strategy and taking most of the steps to reduce potential risk in as much as possible. In actual fact, there were no material events related to technology nor to cyber and information security.

Liquidity risk remained low-medium. During all of the third quarter of 2021, the alert level at the Bank was Business As Usual. In the third quarter of 2021, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated, including data for Union Bank) for the third quarter of 2021 was 126%.

Reputational risk remained Low, with the Bank constantly monitoring various benchmarks and indicators with regard to the Bank's reputation, including impact of the Union Bank merger, and the client conversion process which started in the first and second quarters of the year. There was no material impact on the Bank's reputational risk.

The Bank conducts processes for risk identification and measurement, based on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks / indicators, scenarios and sensitivity analysis, inter alia) and qualitative measurement methods (expert assessments and surveys).

Strategic plan

Further to the Bank's 2020 annual report and in view of the Bank's achievements, changes in the banking industry and in the business environment, on April 26, 2021 the Bank Board of Directors approved a new five-year strategic plan for 2021-2025, based on the following:

- Position the Bank as a key player in business banking, based on supporting action including: set up operations for investments in non-banking corporations, lead large and complex transactions and expand the Bank's international operations at its branches in London and in the USA in areas focused on business banking;
- Establish the Bank Group's leadership position among households: Maintain the leadership position in the mortgage market while introducing innovations in products and processes, and increasing synergies with commercial operations, expand operations among target populations and set up a desk for unique consumer credit products;
- Provide personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with client choice and needs, as well as offering personalized value propositions across all channels, which are customized for client needs.
- Align the operating model with future challenges and improve operating efficiency through, *inter alia*, locating the Bank headquarters in the central Lod campus, align branch structure with future challenges and optimize use of real estate, automate banking operations and streamline the work environment.
- Leverage the Union Bank merger to create operating and business synergies and to realize economies of scale.

The new strategic plan is designed to achieve the following targets:

- Achieve in 2025, net profit return on equity attributable to equity holders of 14% on average equity, as well as double-digit, growing and stable return over the term of the strategic plan; these rates are based on the ratio of Tier I equity to risk components for the Bank at the minimum set by the Supervisor of Banks plus appropriate margin;
- Grow banking operations so as to increase the Bank's market share in the Israeli banking system;
- Grow revenues at an annual average rate of 8% (although non-linear), while controlling the average annual expenses at a 5% growth rate (also non-linear) over the term of the new strategic plan;
- Maintain high operating efficiency and leverage economies of scale due to the Union Bank merger, to achieve a cost-income ratio lower than 50% in 2025.
- Under the new strategic plan, the Board of Directors shall monitor execution of the plan, in order to consider potential increase of the dividend rate, from 40% of net profit attributable to Bank shareholders, up to 50% of net profit, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I capital to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.
- See also chapter " Dividend distribution policy " of the Report of the Board of Directors and Management.
- For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

Summary of Bank policy on major risks and developments in the third quarter of 2021

Business goals and strategy

For more information about the Bank's new strategic plan for 2021-2025, see chapter "Business goals and strategy" of the Report of the Board of Directors and Management for the second quarter of 2021.

Credit risk

The overall risk level for commercial credit remained Medium, a level which reflects the uncertainty with regard to the full continuing impact of the crisis on the quality of the Bank's loan portfolio. This is despite the improvement in the state of the economy and despite the significant improvement in client repayment standards – with clients resuming payment of deferred loans, as well as start of repayment of loans from the State-guaranteed loans from the Corona Virus funds extended during the crisis.

Loans in the micro and small business segment is highly diversified in terms of clients in various economic sectors, mostly in small industry, trade, business and financial services. Financing in the micro and small business segment is mostly provided for short terms, for current operations and for financing of working capital, covering gaps in cash flow, financing trade receivables, inventory and import activities. Such financing is typically provided against appropriate collateral, such as checks for collateral / checks receivable, credit card vouchers, invoices, pledging of contracts and current liens. Moreover, credit is extended against external collateral, such as deposits, securities portfolios and real estate. The risk level in the loan portfolio for small and micro-businesses is constantly monitored, including use of custom credit rating models and setting the appropriate risk appetite. The Bank also monitors high-risk economic sectors.

Loans to medium businesses are typically highly diversified across clients, total credit per client, economic sectors and by geography. Financing is provided to this segment for current operations through financing of working capital, including financing of trade receivables and inventory, which is typically short-term financing, expansion and investment in the firm, which is typically medium- and long-term financing. This financing is backed by most existing collateral types, such as: deposits, securities, real estate, equipment, vehicles, current liens, various guarantees and personal guarantees. In addition, financial covenants are used for these clients, in order to mitigate risk.

Loans to large business clients is typically less diversified than in other segments. These clients typically have complex financial activities and diverse financing sources, both from the banking system in Israel and overseas, from institutional investors and from the capital market. Collateral for such loans is typically general collateral, such as a current lien, negative pledge along with financial covenants. These clients are involved with various credit products, including credit for the capital market.

Loans to the individual client segment are highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. Clients of the Retail Division are rated using custom advanced models. These models quantify the probability of default (PD) and the loss given default (LGD) for small businesses and individual clients of the Retail Division. On-going management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system).

Business credit is managed based on multiple risk benchmarks, including internal models for assessment of client credit ratings. The Bank has the business. legal and operating infrastructure for flexible management of credit risk by selling and/or sharing risk. The Bank closely manages and monitors credit risk through, inter alia, on-going activity of forums headed by the Bank President & CEO and by the Corporate Division Manager, and attended by the Risk Control Division and representatives of the business divisions.

Residential mortgages account for a material share of total credit risk at the Bank, and the overall risk level in the residential mortgage portfolio in the second quarter of 2021 returned to its pre-crisis level of Low, in view of the significantly lower volume of loans subject to deferral and with most of the clients subject to deferral resuming regular payments.

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank Management, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligation in default and, in particular,

the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of September 2021) was 53.8% (reflecting the LTV ratio upon loan origination). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

Market and interest risk in the bank portfolio

Activity in the trading portfolio (portfolios managed by the trading room) is low, with most of the Bank's financial activity and risk associated with the banking portfolio. The Bank's banking portfolio mostly includes long-term uses (mortgages), against which the Bank raises resources which may be short-term. The portfolio structure exposes the Bank EV to erosion in case of rising interest rates. Note that Union Bank's nostro portfolio reflects risk that is higher than the Bank's risk appetite. However, at the Bank level on consolidated basis, the impact of this portfolio is not material and the overall risk level remained Low-Medium.

Risk values measured in the normal course of business and under stress scenarios were slightly higher compared to those in the previous quarter, due to current banking operations, and range at levels lower than the specified risk appetite. In this quarter, inflationary expectations increased. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Liquidity risk

In the third quarter of 2021, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated, including data for Union Bank) for the third quarter of 2021 was 126%[1]. In this quarter, there were no exceptions from the risk appetite limits and concentration benchmarks.

During all of the third quarter of 2021, the alert level at the Bank was Business As Usual. During this quarter, the liquidity coverage ratio decreased slightly, primarily due to increase in loans to the public, offset by increase in deposits from the public.

Net stable funding ratio (NSFR)

In June 2021, the Bank of Israel issued Proper Conduct of Banking Business Directive 222 "Net stable funding ratio" and the Q&A for implementation of this directive. The directive would become effective on December 31, 2021.

Net stable funding ratio is designed to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The Bank is in compliance with the regulatory threshold (100%) required for implementation of this directive.

Operational risk

Throughout the Corona Virus outbreak and in the first nine months of 2021, operational risk remained Medium. The Bank maintained a low level of losses with respect to operating failure events, and in actual fact, no material operating events occurred. The risk level reflects the potential damage that may be caused by materialization of operational risks. Activity continued to improve monitoring, management and control of operational risks, with emphasis on upgrading the IT system for collection of failure events and management of risk surveys and and the risk map, further processes of identification, analysis, debriefing and lesson-learning, and enhance awareness of the various operational risks.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".

[1] As from data for the fourth quarter of 2020, the average liquidity coverage ratio includes data for Union Bank.

In the third quarter, the Bank continued to address the Corona Virus and maintained work instructions derived fro, guidance issued by the Ministry of Health, including the following: Implementation of the new Green Pass, continued wearing of masks indoors, maintaining hygiene and social distancing, installing barriers at public service counters and continued remote work as needed based on a rapid, structured process.

In the third quarter, the Bank continued to implement the work plan and the exercise plan for 2021, including preparations for an additional DRP exercise (the second exercise planned for this year), in co-operation between the Technology Division and the Business Continuity Unit. Continued on-going implementtion of the business continuity plan, including periodic revision of emergency procedures at headquarters and at branches, including updates to work procedures and training aids for manual operations in case of a power / computer failure, as derived from national stress scenarios.

During this quarter, as part of normal operations and work routines, the Business Continuity Unit maintains control and constant contact with business continuity units across the Group (at Bank Yahav and Union Bank), with current reports and updates also received from the Bank's overseas branches.

For more information see chapter "Significant Events in the Bank Group's Business" on the Report of the Board of Directors and Management.

Information security and cyber defense

In the third quarter of 2021, the risk level remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts. The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.

During the Corona Virus crisis, the Bank's information security team operates fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

We should note that the Corona Virus pandemic has elevated cyber risk across the world, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. Bank operations during this period retained the risk level at the Bank unchanged.

Information technology risk

In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which could arise under such conditions.

As part of the Union Bank merger process, the Bank's Technology Division is conducting a technology merger program, consisting of multiple projects designed to transfer Union Bank activity that is based on Bank Leumi and Union Bank systems and integrating them with the Bank's systems. These projects include conversion of clients, products, historical information, reports and so forth. This technology merger program is managed while maintaining appropriate corporate governance at both banks.

Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite in operational aspects for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems.

IT risk remained Medium, reflecting the potential damage due to materialization of technology risks that are material for proper operations at the Bank.

The Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

Legal risk

In the third quarter of 2021, the level of legal risk remained low-medium.

Review of legal risk level in 2020 included, *inter alia*, a review of potential implications of the Corona Virus crisis on legal risk, which found that in general, there was no impact on the level of legal risk and the quality of management of said risk.

Compliance risk

Compliance risk remained unchanged in the third quarter of 2021, at Low-Medium. This risk assessment is due, inter alia, to addressing of risks classified as high and to further enhancement of controls and training delivery and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators. The Bank also applied regular controls, in order to monitor compliance risk that may materialize during this period.

The Bank has internal enforcement programs for securities and for anti-trust law.

Cross-border risk

The risk level remained unchanged in the third quarter of 2021, at Low-Medium. The Bank manages this risk, *inter alia*, by revising procedures, automating work processes, delivering training, activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS. During this quarter, the Bank submitted FATCA and CRS reports as required. The Bank also monitors regulatory updates from relevant countries for the Bank and its affiliates, once every quarter, to verify their relevance for Bank operations and to implement them if applicable.

AML and terror financing risk

AML risk remained unchanged in the third quarter of 2021 and is defined as low-medium. The risk assessment is based, *inter alia*, on continued risk-focused management, as reflected by revision of operating procedures and processes, including IT support and process streamlining, training and deployment activities along with risk-focused controls in the first and second lines of defense, improvement of documents and classifications, and taking effective action to prevent recurrence of unusual events and compliance failures. The new AML system – MEA – in order to identify unusual activity and for reporting to the AML Authority, is operating in branches on regular basis and enables close control over the banking activity.

Reputation risk

The Bank monitors and reviews the impact of the Corona Virus pandemic, globally and in Israel, on business activity as a whole and on reputation risk in particular, with regard to negative perception of the Bank specifically, and as part of the overall perception of the banking system. The Bank also monitors and reviews the impact of the Union Bank merger on reputational risk. Bank management assumes that at this stage, the reputational risk level has not changed materially. The Bank continues to regularly monitor this matter.

Business-strategic risk

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

The Bank operates in conformity with a five-year strategic plan, approved by the Bank's Board of Directors in April 2021, whose principles have been made public. The strategic plan was reviewed and challenged by Risks Control in aspects of business focus, risk profile and feasibility. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is regularly monitored by the Financial Information and Reporting Division, and is challenged by the Risks Control Division. For more information about the strategic plan, see chapter "Business goals and strategy" on the Report of the Board of Directors and Management.

The Bank is preparing for gradual discontinuation of the use of LIBOR interest rates through 2021, to be replaced by alternative underlying interest rates. In September, the Bank of Israel issued an interim directive

with regard to "Transition from LIBOR interest rates". The effective start date is December 31, 2021, and all new transactions would be based on new underlying interest rates.

In September, in line with amendment of the Banking Act (Customer Service), which requires banks to provide clients with a convenient online process to move their financial activity from one bank to another, implementation of the "Account Transfer with One Click" project was completed.

In conformity with requirements in the Supervisor of Banks' letter regarding "Internal control focused on embezzlement", the Bank would act to bolster the risk management framework and the control environment for embezzlement; To this end, a forum was created, headed by the Chief Risks Officer, to discuss the various issues and to ensure full implementation of all requirements.

Key and emerging risks

Bank business exposes it to various financial and non-financial risks, which may impact the Bank's business results and reputation.

Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes to the competitive environment, to the consumer environment, to the regulatory environment and to the technology environment, a trend of evolving non-financial risks is becoming apparent.

Top risks are risks arising from developments in the Bank's business environment, which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability. Furthermore, evolving risks are identified, which are risks that may materialize in the longer term and their nature and impact on the Bank are uncertain. Such risks include cyber and information security risk, IT risk and reputational risk.

As noted, the risks mapping is regularly reviewed to ensure that it encompasses all risk associated with business operations at the Bank, and risk arising from market conditions and regulatory requirements.

Material top risks and evolving risks are:

Strategic business risk – increased competition, changes to client behavior and to business models, that may result in material impact on the banking system over the medium to long range. Moreover, regulatory changes (such as: the Credit Data Act, Open Banking and transfer of bank accounts) may impact the Bank's business results. Furthermore, this risk is impacted by the Corona Virus event which may potentially impact the Bank's entire risk profile, due to uncertainty as to further development of this risk and material macro-economic implications arising from it.

Macro-economic risk – Bank operations are affected by the macro-economic environment, for example: The Corona Virus crisis, which had a significant impact on the global and local economy, reflected by slower economic activity and changes to the macro-economic environment, including: higher unemployment, changes to interest rates, market volatility and changes to asset prices. Materialization of this risk may increase troubled debts and may negatively impact the Bank's business results.

Cyber and information security risk – increasing cyber threats towards financial institutions. The Bank applies protective measures in order to limit the ability to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat. The Corona Virus event elevated cyber risk, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak.

Technology risk – technology evolution and the age of current systems at the Bank, as well as multiple requirements by banking regulators within short time frames, increase the potential damage that may arise from technology risk that are material for proper operations at the Bank.

Regulatory risk – Increased regulation in Israel and world-wide increased uncertainty and competition in the business environment. This may require the Bank to prepare and IT costs that may result in risk to the Bank's results. The Bank regularly acts to address the regulatory directives applicable for its operations, while allocating the required resources for addressing these risks. Note that the Bank has zero appetite for non-

compliance with applicable regulatory directives of the Bank of Israel. Bank operations with regard to these risks are primarily qualitative actions designed to create the required framework for addressing these emerging risks.

Environmental risk – This is risk due to potential harmful impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risk factors derived from this risk: goodwill, third party liability etc. Environmental risks include: air, water and land pollution, impact to biological diversity and de-forestation.

Climate risk – This is risk due to increased frequency and intensity of weather events due to global warming. Climate risks include transition risks, arising from moves designed to reduce warming, including reduction of carbon emissions (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risks which materialize as direct consequence of climate change, such as: fires, floodings and so forth.

Awareness and importance of environmental risk and climate risk management increased, in Israel and world-wide. In December 2020, the Supervisor of Banks issued a letter regarding environmental risks, with emphasis on climate risk, designed to establish a framework for managing environmental risks and climate risks in the Israeli banking system, in conformity with world-wide regulation and practice. In March 2021, the banks received another letter, requesting them to complete a self-assessment questionnaire in aspects related to environmental risks and climate risks, with the results of this questionnaire forming the basis for discussion between banks and the Supervisor of Banks. In the third quarter of 2021, the Supervisor of Banks issued an update to Public Reporting Directives with regard to public disclosure of environmental, social and governance (ESG) aspects.

The Bank sees great importance in promoting activity and risk management in this regard, and is preparing to expand its activity, to monitor and manage environmental risks, including climate risks, in conformity with expectations of the Supervisor of Banks and emerging global practice in this field. To this end, the Bank established in late 2020 a dedicated team, headed by the CRO, to review this matter. The dedicated team includes representatives from all relevant Bank divisions and has reviewed during the year the various aspects of risk management at the Bank.

Overview of weighted risk assets (OV1)

	Risk weighted assets		Minimum capital requirements[1]
	As of September 30, 2021	As of June 30, 2021	As of September 30, 2021
Credit risk (standard approach)[2]	189,811	184,801	21,827
Counter-party credit risk (standard approach)	1,459	1,438	168
Credit risk value adjustment (CVA)[3]	494	406	57
Amounts lower than discount thresholds (subject to 250% risk weighting)	4,172	4,172	480
Total credit risk	**195,936**	**190,817**	**22,532**
Market risk (standard approach)	2,115	2,681	243
Operational Risk[4]	13,655	13,281	1,570
Total	**211,706**	**206,779**	**24,345**

(1) An additional capital requirement was added to this requirement, at 1% of the residential mortgage balance as of the report date. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 9 to the financial statements.
(2) Credit risk excludes counter-party credit risk, credit risk value adjustment, settlement risk, securitization exposures and amounts lower than the deduction thresholds.
(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(4) Capital allocation with respect to operational risk was calculated using the standard approach.

The change in risk assets in the third quarter of 2021 was primarily due to growth in the residential mortgage portfolio and to growth in commercial credit.

Capital and leverage

Composition of capital

Supervisory capital is composed of two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

Tier I capital includes equity attributable to equity holders of the Bank and the interest of external shareholders in equity of subsidiaries (excess capital at subsidiaries is not taken into account).

Tier I capital includes supervisory adjustments and deductions from capital – goodwill, investments in capital components of financial institutions, cumulative other comprehensive income with regard to cash flow hedges for items not presented at fair value on the balance sheet adjustments with respect to liabilities for derivative instruments, due to change in the Bank's credit risk (DVA) and other supervisory adjustments and deductions.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 2021, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of a group provision for credit losses and equity instruments which fulfill the specified requirements.

Restrictions on capital structure:

- Tier II capital shall not exceed 100% of Tier I capital after required deductions from such capital.
- Capital instruments qualified for inclusion in Tier II capital shall not exceed 50% of Tier I capital after required deductions from such capital.

For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, and for information with regard to issuance and maturity of CoCo subordinated notes, see Note 9 to the financial statements.

Below is a summary of supervisory capital components, capital ratios to risk components for the Group and minimum supervisory capital ratios specified by the Supervisor of Banks:

	September 30, 2021	September 30, 2020	December 31, 2020
			NIS in millions
Tier I equity before regulatory adjustments and deductions	21,318	18,825	19,352
Total regulatory adjustments to and deductions from Tier I capital	[1](781)	(883)	[1](785)
Tier I shareholders' equity	22,099	19,708	20,137
Tier II capital	8,169	6,780	7,176
Total capital	30,268	26,488	27,313
Total weighted risk assets	211,706	197,502	200,484
Ratio of Tier I equity to risk components	10.44%	9.98%	10.04%
Ratio of total capital to risk components	14.30%	13.41%	13.62%
Minimum Tier I capital ratio required by Supervisor of Banks	8.60%	8.71%	8.68%
Minimum overall capital ratio required by Supervisor of Banks	11.50%	11.50%	11.50%

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see note 25 F to the financial statements.

For more information and detailed composition of supervisory capital, in conformity with disclosure requirements of Basel Pillar 3, as of September 30, 2021 compared to September 30, 2020 and December 31, 2020, see Addendum A below.

As noted above, in conformity with extension of the update to Interim Directive 250 by the Supervisor of Banks on September 30, 2021, the Bank Board of Directors approved on November 15, 2021 (after the balance sheet date) a dividend distribution amounting to NIS 752.7 million, or 30% of earnings in the first nine months of 2021. For more information see note 18 to the financial statements.

Leverage ratio

The Bank applies Proper Banking Conduct Directive 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.

The Bank's leverage ratio as of September 30, 2021 is 5.37%, compared to 5.19% as of December 31, 2020.

On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change. In conformity with a circulars dated march 22 and September 30, 2021, the Directive is effective from the issue date thereof through December 31, 2021. After expiration of the Directive, the relief shall remain in effect for a further 24 months, provided that the leverage ratio would be no less than the leverage ratio upon expiration of the Directive, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

Below is information about the Bank's leverage ratio (NIS in millions):

Comparison of assets on balance sheet and exposure measurement for leverage ratio	As of September 30, 2021	As of September 30, 2020	As of December 31, 2020
Total assets in consolidated financial statements	379,563	347,050	360,140
Adjustments with respect to financial derivative instruments	992	538	(425)
Adjustments with respect to off-balance sheet items[1]	29,335	27,111	26,875
Other adjustments	1,665	1,915	1,780
Exposure for leverage ratio	**411,555**	**376,614**	**388,370**

(1) Conversion of off-balance sheet exposures to equivalent credit amounts, in conformity with Basel rules for capital adequacy measurement.

Disclosure with regard to leverage ratio (NIS in millions)

	As of September 30, 2021	As of September 30, 2020	As of December 31, 2020
Composition of exposures and leverage ratio (NIS in millions)			
Balance sheet exposure			
Assets on balance sheet	377,270	343,955	355,505
Amounts with respect to assets deducted to determine Tier I capital	(172)	(107)	(314)
Total balance sheet exposure	**377,098**	**343,848**	**355,191**
Exposure with respect to derivatives			
Cost of replacement with respect to all derivative transactions	2,978	2,796	3,694
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,690	1,868	1,819
Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives	–	–	–
Deduction of debtor assets with respect to variable cash collateral provided in conjunction with derivative transactions	(1,297)	(1,191)	(1,866)
Exempt central counter-party leg of commercial exposure settled by the client	–	–	–
Effective adjusted nominal amount of credit derivatives written	258	275	257
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	**3,629**	**3,748**	**3,904**
Exposure with respect to securities financing transactions			
Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale	1,493	1,907	2,400
Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions	–	–	–
Credit risk exposure for central counter-party with respect to securities financing assets	–	–	–
Exposure with respect to transactions as agent	–	–	–
Total exposure with respect to securities financing transactions	**1,493**	**1,907**	**2,400**
Other off-balance-sheet exposures			
Off-balance sheet exposure at gross nominal value	101,894	92,832	97,326
Adjustments with respect to conversion to credit equivalent amounts	(72,559)	(65,721)	(70,451)
Off-balance sheet items	29,335	27,111	26,875
Capital and total exposure			
Tier I capital	22,099	19,708	20,137
Total exposure	411,555	376,614	388,370
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.37%	5.23%	5.19%

Credit risk

This chapter discusses credit risk, in conformity with disclosure requirements of the Basel Committee and the FSB; the chapter structure and topic order (adjusted for the nature of Bank operations) are also in conformity with these requirements.

The chapter "Counter party credit risk" below includes qualitative and quantitative disclosures about the capital requirement with respect to this risk and adjustment to capital requirements with respect to credit risk (CVA).

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit risk is a material risk to Bank operations. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also correlated with other risks, such as: Market and interest risk, liquidity risk, compliance risk and other risks.

Credit is at the core of banking operations and therefore, credit risk is the major risk addressed by the banking system. Accordingly, the lion's share of capital allocated in Tier I is with respect to credit risk.

For more information about credit risk, see chapter "Credit risk" in the 2020 Risks Report, available on the Bank website.

Credit quality of credit exposures (CR1)

				September 30, 2021
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,767	352,582	2,164	353,185
Debentures	–	13,377	–	13,377
Off-balance sheet exposure[(2)]	78	100,908	208	100,778
Total	**2,845**	**466,867**	**2,372**	**467,340**

				September 30, 2020
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,918	316,870	2,329	317,459
Debentures	–	16,420	–	16,420
Off-balance sheet exposure[(2)]	123	92,764	221	92,666
Total	**3,041**	**426,054**	**2,550**	**426,545**

				December 31, 2020
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,928	327,550	2,435	328,043
Debentures	–	15,453	–	15,453
Off-balance sheet exposure[(2)]	108	97,264	232	97,140
Total	**3,036**	**440,267**	**2,667**	**440,636**

(1) Gross balances in conformity with reported carrying amounts on the financial statements for on- and off-balance sheet items, creating exposure to credit risk pursuant to Proper Conduct of Banking Business Directive 203.

(2) Off-balance sheet exposures are before credit conversion factors (CCF).

Below are details of the provision for credit losses with respect to residential mortgages for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of September 30, 2021 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears[(2)]	
	In arrears 30 to 89 days[(1)]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		Total
Amount in arrears	7	23	16	19	206	264	34	305
Of which: Balance of provision for interest[(3)]	–	–	–	1	115	116	8	124
Recorded debt balance	504	817	226	91	154	1,288	64	1,856
Balance of provision for credit losses[(4)]	–	–	35	41	119	195	31	226
Debt balance, net	**504**	**817**	**191**	**50**	**35**	**1,093**	**33**	**1,630**

(1) In conformity with Public Reporting Directives, excludes the balance of residential mortgages in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

mitigation methods Credit risk mitigation methods (CR3)

	As of September 30, 2021								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debt other than debentures	317,011	36,445	10,340	28,468	8,244	7,977	2,096	–	–
Debentures	13,369	–	–	–	–	–	–	–	–
Total	**330,380**	**36,445**	**10,340**	**28,468**	**8,244**	**7,977**	**2,096**	**–**	**–**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,153	505	291	53	30	452	260	–	–

	As of September 30, 2020								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debt other than debentures	282,003	35,456	9,490	26,887	7,710	8,569	1,780	–	–
Debentures	16,420	–	–	–	–	–	–	–	–
Total	**298,423**	**35,456**	**9,490**	**26,887**	**7,710**	**8,569**	**1,780**	**–**	**–**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,143	470	103	252	40	218	63	–	–

	As of December 31, 2020								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debt other than debentures	293,598	34,445	9,945	26,126	8,198	8,319	1,747	–	–
Debentures	15,453	–	–	–	–	–	–	–	–
Total	**309,051**	**34,445**	**9,945**	**26,126**	**8,198**	**8,319**	**1,747**	**–**	**–**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,136	464	94	226	74	238	20	–	–

(1) Balance sheet balance in conformity with reported carrying amounts on the financial statements, after provisions for credit losses.

(2) Balance sheet balance of part of the debt amount secured by collateral, guarantee or credit derivative, after accounting for safety factors.

Credit risk – standard approach

Standard approach – exposures by asset type and risk weighting[1][2] (CR5)

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
										As of September 30, 2021
Sovereigns, central banks and national monetary authority	105,796	84	–	–	–	–	14	–	–	105,894
Public sector entities (PSE) other than central Government	246	1,801	–	9	–	–	2	–	–	2,058
Banks (including Multi-party Development Banks)	–	2,582	–	624	–	–	149	–	–	3,355
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,850	–	458	–	–	56,433	–	–	62,741
Retail exposure to individuals	–	–	–	–	–	24,771	1	–	–	24,772
Loans to small businesses	–	–	–	–	–	12,297	3	–	–	12,300
Secured by residential property	–	–	56,586	40,869	35,035	35,279	1,130	–	–	168,899
Secured by commercial real estate	–	–	–	–	–	–	6,535	–	–	6,535
Loans in arrears	–	–	–	–	–	–	1,482	1,315	–	2,797
Other assets	2,515	–	–	–	–	–	3,547	242	4	6,308
Of which: with respect to shares	–	–	–	–	–	–	468	195	–	663
Total	**108,557**	**10,317**	**56,586**	**41,960**	**35,035**	**72,347**	**69,296**	**1,557**	**4**	**395,659**
										As of September 30, 2020
Sovereigns, central banks and national monetary authority	89,217	87	–	–	–	–	83	–	–	89,387
Public sector entities (PSE) other than central Government	272	1,598	–	25	–	–	–	–	–	1,895
Banks (including Multi-party Development Banks)	–	3,824	–	484	–	–	150	–	–	4,458
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	6,158	–	478	–	–	51,458	–	–	58,094
Retail exposure to individuals	–	–	–	–	–	24,180	–	–	–	24,180
Loans to small businesses	–	–	–	–	–	13,128	4	–	–	13,132
Secured by residential property	–	–	55,229	37,091	21,158	37,983	1,040	–	–	152,501
Secured by commercial real estate	–	–	–	–	–	–	6,866	–	–	6,866
Loans in arrears	–	–	–	–	–	–	1,305	1,298	–	2,603
Other assets	2,338	–	–	–	–	–	3,384	113	5	5,840
Of which: with respect to shares	–	–	–	–	–	–	285	87	–	372
Total	**91,827**	**11,667**	**55,229**	**38,078**	**21,158**	**75,291**	**64,290**	**1,411**	**5**	**358,956**
										As of December 31, 2020
Sovereigns, central banks and national monetary authority	97,005	87	–	–	–	–	118	–	–	97,210
Public sector entities (PSE) other than central Government	252	1,627	–	25	–	–	1	–	–	1,905
Banks (including Multi-party Development Banks)	–	3,801	–	666	–	–	164	–	–	4,631
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	6,212	–	466	–	–	51,870	–	–	58,548
Retail exposure to individuals	–	–	–	–	–	24,246	1	–	–	24,247
Loans to small businesses	–	–	–	–	–	13,329	4	–	–	13,333
Secured by residential property	–	–	55,220	38,010	23,996	37,561	1,205	–	–	155,992
Secured by commercial real estate	–	–	–	–	–	–	6,639	–	–	6,639
Loans in arrears	–	–	–	–	–	–	1,254	1,208	–	2,462
Other assets	2,414	–	–	–	–	–	3,467	119	5	6,005
Of which: with respect to shares	–	–	–	–	–	–	399	96	–	495
Total	**99,671**	**11,727**	**55,220**	**39,167**	**23,996**	**75,136**	**64,723**	**1,327**	**5**	**370,972**

(1) Balances in this disclosure include on- and off-balance sheet debt balances that reflect credit risk, excluding deferred tax amounts and investments in financial institutions below the discount thresholds (subject to 250% risk weighting), exposures with respect to counter-party credit risk and securitization exposures.

(2) The balances reflect the supervisory exposure amounts, net of provisions and write-offs, after credit conversion factors and after credit risk mitigators.

Counter-party credit risk

Analysis of exposure to counter-party credit risk (CCR) based on the supervisory approach (CCR1)

	As of September 30, 2021			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,232	1,695	1,841	1,280
Comprehensive approach to credit risk mitigation (for securities financing transactions)	–	–	93	93
Total	**1,232**	**1,695**	**1,934**	**1,373**

	As of September 30, 2020			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,535	2,015	2,556	1,378
Comprehensive approach to credit risk mitigation (for securities financing transactions)	–	–	261	261
Total	**1,535**	**2,015**	**2,817**	**1,639**

	As of December 31, 2020			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,782	1,494	2,408	1,380
Comprehensive approach to credit risk mitigation (for securities financing transactions)	–	–	365	365
Total	**1,782**	**1,494**	**2,773**	**1,745**

Capital allocation with respect to credit risk valuation adjustment (CVA) (CCR2)

	As of September 30, 2021		As of September 30, 2020		As of December 31, 2020	
	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets
Total – portfolios for which CVA is calculated using the standard approach	1,637	494	1,809	536	1,905	487

Market risk

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities). The Bank has no exposure to commodities and its exposure to equities is not material, so that Bank exposure to such risk is primarily due to basis risk – the risk exists when the Bank's assets and liabilities are denominated in different currencies or are in different linkage segments – and from interest rate risk, which the risk to Bank profit and to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

For more information about market risk, see chapter "Market risk" in the 2020 Risks Report, available on the Bank website.

Market risk using the standard approach

Below are the capital requirement components under the standard approach for market risk (NIS in millions):

	Risk assets as of:		
	September 30, 2021	**September 30, 2020**	**December 31, 2020**
Direct products			
Interest rate risk (general and specific)	1,762	1,453	1,519
Stock position risk (general and specific)	36	39	40
Exchange rate risk	309	497	626
Commodities risk	–	–	–
Options	–	–	–
Delta Plus approach	8	33	43
Securitization	–	–	–
Total	**2,115**	**2,022**	**2,228**

As noted above, exposure in the trading portfolio is low and mostly associated with interest risk. Risk assets with respect to interest risk were impacted by positions in derivatives which were not offset according to the standard measurement approach.

Liquidity risk

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Liquidity risk is a material and unique, due to the need to respond to it in the shortest possible time. Risk materialization may cause the Bank to incur significant loss and may even result in collapse of the Bank.

For more information about liquidity risk, see chapter "Liquidity risk" in the 2020 Risks Report, available on the Bank website.

Liquidity coverage ratio (LIQ1)

Below is information about liquidity coverage ratio[1] (NIS in millions):

	For the three months ended September 30, 2021	
	Total unweighted value[2] (Average)	Total weighted value[3] (Average)
Total high-quality liquid assets		
Total high-quality liquid assets		**91,377**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	154,120	10,122
Stable deposits	43,655	2,183
Less stable deposits	59,746	6,417
Deposits for terms longer than 30 days	50,719	1,522
Unsecured wholesale financing, of which:	95,221	62,301
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	3,346	837
Deposits other than for operational needs (all counter-parties)	90,811	60,400
Unsecured debts	1,064	1,064
Secured wholesale financing	–	439
Additional liquidity requirements, of which:	117,074	26,049
Outflows with respect to derivatives exposure and other collateral requirements	17,220	17,220
Credit lines and liquidity	64,082	5,802
Other contractual financing obligations	538	538
Other contingent financing obligations	35,234	2,489
Total outgoing cash flows		**98,911**
Incoming cash flows		
Secured loans	1,654	572
Inflows from regularly repaid exposures	12,722	9,687
Other incoming cash flows	20,738	15,973
Total incoming cash flows	**35,114**	**26,232**
		Total adjusted value[4]
Total high-quality liquid assets		**91,377**
Total outgoing cash flows, net		**72,679**
Liquidity coverage ratio (%)		**126**

(1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2021 is 73.
(2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).
(3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).
(4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

Below is information about liquidity coverage ratio[1] (NIS in millions):

	For the three months ended September 30, 2020	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high-quality liquid assets		
Total high-quality liquid assets		**59,709**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	125,299	7,659
Stable deposits	35,106	1,755
Less stable deposits	41,034	4,429
Deposits for terms longer than 30 days	49,159	1,475
Unsecured wholesale financing, of which:	66,456	41,067
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	2,676	669
Deposits other than for operational needs (all counter-parties)	63,497	40,115
Unsecured debts	283	283
Secured wholesale financing	–	947
Additional liquidity requirements, of which:	91,717	19,899
Outflows with respect to derivatives exposure and other collateral requirements	13,757	13,757
Credit lines and liquidity	45,051	3,431
Other contingent financing obligations	32,909	2,711
Total outgoing cash flows		**69,572**
Incoming cash flows		
Secured loans	1,811	957
Inflows from regularly repaid exposures	10,747	8,462
Other incoming cash flows	17,891	13,370
Total incoming cash flows	**30,449**	**22,789**
		Total adjusted value[4]
Total high-quality liquid assets		**59,709**
Total outgoing cash flows, net		**46,783**
Liquidity coverage ratio (%)		**128**

(1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2020 is 75.

(2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).

(3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).

(4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

Below is information about liquidity coverage ratio[1] (NIS in millions):

	For the three months ended December 31, 2020	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high-quality liquid assets		
Total high-quality liquid assets		**78,145**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	148,396	9,526
Stable deposits	41,410	2,071
Less stable deposits	54,642	5,885
Deposits for terms longer than 30 days	52,344	1,570
Unsecured wholesale financing, of which:	83,017	50,718
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	2,867	717
Deposits other than for operational needs (all counter-parties)	80,048	49,899
Unsecured debts	102	102
Secured wholesale financing	–	994
Additional liquidity requirements, of which:	106,705	22,600
Outflows with respect to derivatives exposure and other collateral requirements	15,210	15,210
Credit lines and liquidity	53,022	4,268
Other contractual financing obligations	382	382
Other contingent financing obligations	38,091	2,740
Total outgoing cash flows		**83,838**
Incoming cash flows		
Secured loans	2,081	1,036
Inflows from regularly repaid exposures	12,659	9,895
Other incoming cash flows	18,870	14,138
Total incoming cash flows	**33,610**	**25,069**
		Total adjusted value[4]
Total high-quality liquid assets		**78,145**
Total outgoing cash flows, net		**58,769**
Liquidity coverage ratio (%)		**133**

(1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the fourth quarter of 2020 is 79.
(2) Unweighted values are accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).
(3) Weighted values are accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).
(4) Adjusted value are calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

Key factors that impact the results of liquidity coverage ratio

The major factors affecting the liquidity coverage ratio results are composition of Bank sources and uses. High-Quality Liquid Assets ("HQLA") are Level 1 assets, which are typically highly negotiable and associated with low risk. These include cash, current accounts and deposits with central banks, debentures of sovereigns with a 0% risk weighting and debentures of the State of Israel. Cash outflows primarily consist of unsecured wholesale financing – deposits which corporations and financial institutions deposited with the Bank, as well as outflows with respect to exposure to derivatives. Cash inflows primarily consist of credit receipts and inflows with respect to exposure to derivatives.

The ratio is primarily cyclical and may be forecast based on internal estimates by the Bank. The key factor which affects evolution of this ratio over time is growth in Bank business, both in raising and management of source composition and increase in uses. There is some volatility between days of the month, due to current activity of clients and interchangeability between NIS and foreign currency, primarily due to activity in NIS / foreign currency derivatives.

Composition of high quality liquid assets (HQLA)

Below are details of liquid assets by level, as required by Directive 221 (NIS in millions):

	September 30, 2021	September 30, 2020	Average for the third quarter of 2021	Average for the third quarter of 2020
Level 1 assets	89,157	75,691	91,212	74,089
Level 2a assets	83	47	83	47
Level 2b assets	82	108	82	108
Total HQLA	**89,322**	**75,846**	**91,377**	**74,244**

There is a regulatory limit applicable to the Mizrahi-Tefahot USA branch, with regard to use of liquidity reserve by this entity; Bank scenarios assume use of branch liquidity in conformity with this limit.

Composition of pledged and un-pledged available assets:

	As of September 30, 2021		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
	Including Union Bank		
Cash and deposits with central banks	94,866	2,958	91,908
Debentures of the Government of Israel	11,345	798	10,547
Debentures of others in Israel	1,284	–	1,284
Debentures of foreign governments	941	262	679
Debentures of foreign others	515	19	496
Loans to the public, net	259,742	3,808	255,934
Total	368,693	7,845	360,848

	As of September 30, 2020		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
	Excluding Union Bank		
Cash and deposits with central banks	75,744	1,852	73,892
Debentures of the Government of Israel	14,634	687	13,947
Debentures of others in Israel	1,501	–	1,501
Debentures of foreign governments	1,168	333	835
Debentures of foreign others	555	–	555
Loans to the public, net	241,765	–	241,765
Total	335,367	2,872	332,495

	As of December 31, 2020		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	84,450	339	84,111
Debentures of the Government of Israel	14,455	803	13,652
Debentures of others in Israel	1,390	–	1,390
Debentures of foreign governments	451	345	106
Debentures of foreign others	548	20	528
Loans to the public, net	245,525	2,057	243,468
Total	346,819	3,564	343,255

Developments in liquidity coverage ratio

In the third quarter of 2021, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated, including data for Union Bank) for the third quarter of 2021 was 126%. In this quarter, there were no recorded deviations from ratio restrictions.

Additions

Addendum A – Composition of supervisory capital

		As of September 30,		As of December 31,
		2021	2020	2020
				NIS in millions
Tier I equity: Instruments and retained earnings				
1	Ordinary share capital issued by the banking corporation and ordinary share premium for shares included in Tier I capital	3,549	3,521	3,532
2	Retained earnings, including dividends proposed or declared after the balance sheet date	17,574	15,042	15,548
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(240)	(160)	(160)
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	435	422	432
6	**Tier I equity before regulatory adjustments and deductions**	**21,318**	**18,825**	**19,352**
Tier I equity: Regulatory adjustments and deductions				
8	Goodwill, net of related deferred tax liability, if applicable	87	87	87
9	Other intangible assets, other than mortgage-servicing rights, net of related deferred tax liability	85	–	100
10	Deferred tax assets that rely on future profitability of the banking corporation for realization, excluding those arising from temporary differences	–	19	127
11	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	(13)	19	11
14	Unrealized gains / losses from changes to fair value of liabilities arising from change to own credit risk of the banking corporation. In addition, with regard to liabilities with respect to derivative instruments, all debt value adjustments (DVA) arising from own credit risk of the banking corporation is to be deducted	4	22	10
16	Investment in own ordinary shares, held directly or indirectly (including commitment to purchase shares subject to contractual obligations)	–	–	–
21	Deferred tax assets arising from temporary differences, whose amount exceeds 10% of Tier I capital	–	–	–
25	Of which: Deferred tax assets arising from temporary differences	–	–	–
26	Regulatory adjustments and other deductions stipulated by the Supervisor of Banks	[(1)](944)	(1,030)	(1,120)
26.ג	Of which: Additional regulatory adjustments to Tier I capital, not included in sections 25.A and 25.B.	–	–	–
28	**Total regulatory adjustments to and deductions from Tier I capital**	**(781)**	**(883)**	**(785)**
29	**Tier I shareholders' equity**	**22,099**	**19,708**	**20,137**
44	**Additional Tier I capital**	**–**	**–**	**–**
45	**Tier I capital**	**22,099**	**19,708**	**20,137**

		As of September 30, 2021	As of September 30, 2020	As of December 31, 2020
				NIS in millions
Tier II capital: Instruments and provisions				
46	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	2,191	342	258
47	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	447	894	894
48	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	3,503	3,312	3,709
49	Of which: Tier II capital instruments issued by subsidiaries of the banking corporation, held by third party investors, subject to phase-out from Tier II capital	–	–	–
50	Group provisions for credit losses by effect of related tax	2,028	2,232	2,315
51	**Tier II capital, before deductions**	8,169	6,780	7,176
Tier II capital: Deductions				
57	**Total deductions from Tier II capital**	–	–	–
58	Tier II capital	8,169	6,780	7,176
59	**Total equity**	30,268	26,488	27,313
60	**Total weighted risk assets**	211,706	197,502	200,484
Capital ratios and capital conservation buffer				
61	Tier I shareholders' equity	10.44%	9.98%	10.04%
62	Tier I capital	10.44%	9.98%	10.04%
63	Total capital	14.30%	13.41%	13.62%
Minimum requirements stipulated by the Supervisor of Banks				
69	Minimum Tier I equity ratio required by Supervisor of Banks	8.60%	8.71%	8.68%
71	Minimum overall capital ratio required by Supervisor of Banks	11.50%	11.50%	11.50%
Amounts below deduction threshold (before risk weighting)				–
72	Investments in capital of financial corporations (other than banking corporations and their subsidiaries), that do not exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	93	–	80
73	Investments in Tier I capital of financial corporations (other than banking corporations and their subsidiaries), that do exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	4	2	3
75	Deferred tax assets arising from temporary differences, that are below the deduction threshold	1,665	1,710	1,722
Cap for inclusion of provisions in Tier II				
76	Provision eligible for inclusion in Tier II with respect to exposures subject to standardized approach, prior to application of cap	2,028	2,232	2,315
77	Cap on inclusion of provisions in Tier II under standardized approach	2,449	2,285	2,317
Capital instruments not eligible as regulatory capital subject to transitional provisions				
84	Current cap for instruments included in Tier II capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	1,195	1,195	1,195
85	Amount deducted from Tier II capital due to cap	2,324	1,813	1,819

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see Note 25 F to the 2020 financial statements.

Glossary and index of terms included in the Risks Report

Below is a summary of terms included on the Risks Report:

Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	**CVA - Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
H	**HQLA – High-Quality Liquid Assets** which may be easily and quickly converted into cash at a small loss (or no loss) under a stress scenario.
I	**ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**LGD (Loss Given Default)** – Loss as percentage of credit should the client go into default.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
	PD (Probability Of Default) – Probability in percent of a borrower going into default within a specified time.
R	**Risk assets** – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
	Risks document – A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I capital, additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.

Terms with regard to banking and finance

D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Derivatives – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in housing loans.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off. Financial instrument – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.

Terms with regard to regulatory directives

L	**LCR – Liquidity Coverage Ratio** – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

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מזרחי טפחות

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