# Bank Mizrahi Tefahot

## Risks Report for the first quarter of 2023

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 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: The condensed financial statements, as well as in XBRL format, this 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 are also available on the Bank website at www.mizrahi-tefahot.co.il/en financial reports.

In accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013, the website also includes accessible reports.

# Primary table of contents

# List of tables included in the risks report

# Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof as of March 31, 2023. 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 May 16, 2023.

The risks report and other supervisory disclosures are presented in conformity with directives and guidelines of the Supervisor of Banks, including disclosure requirements from Basel Pillar 3, disclosure requirements issued by the Financial Stability Forum (FSF) and further disclosure requirements of the Financial Stability Board (FSB).

In conformity with the Supervisor of Banks' public reporting directives, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose analysis and presentation on quarterly basis is material for readers of the report.
If needed, this report should be read in conjunction with the 2022 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: Global supervisory framework to improve stability of the banking system".

All of these reports are also available on the Bank website at:

www.mizrahi-tefahot.co.il About the Bank >> Investor Relations >> Financial Information

In conformity with the Equal Rights for Persons with Disabilities Regulations (Service accessibility adaptations), 2013, the website also provides accessible reports.

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

Approval date of the financial statements and risks report:
Ramat Gan, May 16, 2023

# Forward-looking information

Some of the information in the Report of the Board of Directors and Management, 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 included in the forward-looking information, due to many factors including, inter alia, changes to capital markets in Israel and overseas, macro-economic changes, geo-political changes, changes to legislation and regulation and other changes not within the Bank's control, which may result in assessments not materializing and/or in changes to business plans.

Forward-looking information typically includes words or expressions such as: "we assume", "expected", "forecasted", "estimate", "intend", "plan", "may change" and similar expressions, as well as nouns such as: "plan", "objectives", "desire", "should", "may", "will be". Such forward-looking expressions involve risk and uncertainty, as they are based on current Bank assessments with regard to future events, which include the following: 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 stability 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 below relies, inter alia, on publications from the Central Bureau of Statistics, Ministry of Finance, Bank of Israel and others who publish data and estimates with regard to capital markets in Israel and overseas, and on forecasts and future estimates on various matters, as noted above, and any anticipated events or developments may fail to 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):

| | 2023 | 2022 | | | | 2022 |
|---|---|---|---|---|---|---|
| | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter | Annual |
| **Key supervisory and financial ratios** | | | | | | |
| **Available capital** | | | | | | |
| Tier I equity[(1)] | 26,001 | 25,072 | 24,332 | 23,567 | 22,650 | 25,072 |
| Tier I capital before effect of transitional provisions | 25,813 | 24,791 | 24,047 | 23,277 | 22,355 | 24,791 |
| Total capital | 34,263 | 33,087 | 32,186 | 31,555 | 30,314 | 33,087 |
| Total capital before effect of transitional provisions | 34,263 | 32,828 | 31,923 | 31,287 | 30,097 | 32,828 |
| **Risk weighted assets** | | | | | | |
| Total risk weighted assets (RWA) | 256,874 | 252,251 | 245,282 | 235,783 | 226,301 | 252,251 |
| **Capital adequacy ratio (in %)** | | | | | | |
| Tier I capital ratio(1) | 10.12 | 9.94 | 9.92 | 10.00 | 10.01 | 9.94 |
| Tier I capital ratio before effect of transitional provisions | 10.03 | 9.78 | 9.75 | 9.85 | 9.86 | 9.78 |
| Total capital ratio | 13.34 | 13.12 | 13.12 | 13.38 | 13.40 | 13.12 |
| Total capital ratio before effect of transitional provisions | 13.29 | 12.95 | 12.94 | 13.25 | 13.28 | 12.95 |
| Tier I capital ratio required by Supervisor of Banks[(2)] | 9.60 | 9.60 | 9.61 | 9.62 | 9.61 | 9.60 |
| Available Tier I capital ratio, beyond what is required by the Supervisor of Banks[(2)] | 0.52 | 0.34 | 0.31 | 0.38 | 0.40 | 0.34 |
| **Leverage ratio[(3)]** | | | | | | |
| Total exposure | 469,925 | 463,010 | 462,856 | 450,369 | 426,244 | 463,010 |
| Leverage ratio (in %) | 5.53 | 5.42 | 5.26 | 5.23 | 5.31 | 5.42 |
| Leverage ratio before effect of transitional provisions (in %) | 5.49 | 5.35 | 5.20 | 5.17 | 5.24 | 5.35 |
| **Liquidity coverage ratio[(4)]** | | | | | | |
| Total high quality liquid assets | 83,031 | 84,000 | 84,602 | 84,379 | 85,927 | 84,000 |
| Total outgoing cash flows, net | 65,864 | 71,431 | 70,909 | 70,430 | 71,724 | 71,431 |
| Liquidity coverage ratio (in %) | 126 | 118 | 119 | 120 | 120 | 118 |
| **Net stable funding ratio[(5)]** | | | | | | |
| Total available stable funding | 275,561 | 277,605 | 285,733 | 274,230 | 258,878 | 277,605 |
| Total required stable funding | 243,380 | 241,884 | 246,196 | 240,140 | 223,862 | 241,884 |
| Net stable funding ratio (in %) | 113 | 115 | 116 | 114 | 116 | 115 |
| **Performance benchmarks** | | | | | | |
| Net profit return on equity[(6)] | 22.4 | 18.5 | 20.8 | 19.4 | [(7)]21.9 | [(7)]20.1 |
| Net profit return on risk assets[(6)] | 2.15 | 1.92 | 1.96 | 1.82 | 2.07 | 1.91 |
| Deposits from the public to loans to the public, net | 111.6 | 112.0 | 113.6 | 109.9 | 110.5 | 112.0 |
| **Key credit quality benchmarks** | | | | | | |
| Ratio of balance of provision for credit losses to total loans to the public | 0.98 | 0.93 | 0.91 | 0.88 | 0.89 | 0.93 |
| Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public | 0.88 | 0.87 | 0.99 | 1.20 | 1.13 | 0.87 |
| Expenses with respect to credit losses to loans to the public, net for the period | 0.29 | 0.25 | 0.20 | 0.14 | 0.11 | 0.17 |
| Of which: With respect to commercial loans other than residential mortgages | 0.65 | 0.65 | 0.43 | 0.25 | 0.26 | 0.39 |
| Of which: with respect to residential mortgages | 0.08 | 0.02 | 0.07 | 0.08 | 0.03 | 0.05 |
| Ratio of net accounting write-offs to average loans to the public | 0.07 | 0.22 | 0.05 | 0.06 | 0.03 | 0.09 |

Financial ratios indicate as follows:

- Net profit return on equity in the first quarter of the year was 22.4%, primarily due to increase in activity volume and to impact of higher interest and inflation. The ratio of Tier I capital to risk components increased to 10.12%. The minimum ratio required of the Bank is 9.60%.

Profit and loss items, 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".

(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) Including a capital requirement at 1% of the residential mortgage balance as of the date of the financial statements.
(3) 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.
(4) 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 reported quarter.
(5) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. The requirement to calculate and maintain a minimum net stable funding ratio and the required public disclosure apply as from December 31, 2021.
(6) Net profit attributable to shareholders of the Bank.
(7) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 and in the first quarter of 2022 was 19.0% and 16.6%, respectively.

# Bank approach to risk management (OVA)

## General information regarding management of various risks and the risk profile

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support risk management and control. 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 Bank policy documents for risk control and management are based on these underlying principles.

Risk management at the Bank Group is conducted based on an overview of Bank activity in Israel and at overseas affiliates, in conformity with regulatory requirements, to support achievement of the Group's strategic targets, while taking risk judiciously and maintaining a risk level in line with the overall risk appetite specified by the Bank Board of Directors.

The risk appetite defines the overall risk level which the Bank Group is willing to assume. The risk appetite specifies where the Bank wishes to be in terms of return (proceeds/reward) 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 Group's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives.

Risk tolerance is a specific setting 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 Group is willing to assume.

Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. Risks management and control processes at the Bank 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. Business activity in diverse financial products and instruments exposes the Bank Group to various financial and non-financial risks, whose materialization has potential to impact its financial results or image. The Bank is exposed to financial risk, such as: credit risks, concentration risk, liquidity risk and market and interest risks, as well as non-financial risks, such as: Reputational risk, compliance and regulatory risk, operational risk including, inter alia: IT risk, information and cyber security risk, legal risk and other risk, such as: climate and environmental risk, strategic business risk etc.

**System-wide scenario**

In line with customary world-wide practice, the Supervisor of Banks annually conducts a uniform macro-economic stress scenario for the banking system, designed to test systemic and individual financial stability in a different macro-economic environment and risk concentrations under an extreme scenario. In December 2022, the Supervisor of Banks published a uniform macro-economic stress scenario, originating from a global shock due to disruption to supply chains and the war in the Ukraine, resulting in world-wide shortage of basic raw materials and causing sharply higher inflation and economic slow-down. In response to the higher prices, central banks in Israel and around the world adopt a restrictive monetary policy and sharply raise interest rates. This scenario includes continued slow-down in local and global activity, along with sharply higher unemployment, impact to private consumption and lower prices of shares and bonds. These, along with curbing the inflation, cause the central banks to change direction and to sharply lower interest rates, in an attempt to revive economic activity and to prevent an even worse recession. Towards the end of the scenario, economic activity in Israel and world-wide recovers, inflation returns to its normal track and accordingly, the Bank of Israel starts to gradually raise interest rates.
Results of the stress scenario, showing the expected evolution of the Bank's balance sheet and capital ratios were provided to the Bank of Israel in March 2023. The Bank's results indicate stability over the entire scenario period, while maintaining appropriate regulatory capital and leverage ratios and beyond.

# Major and emerging risks

The Bank's business activity exposes the Bank to various financial and non-financial risks, with potential to impact the Bank's financial results or image. 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 in the competitive landscape, in the consumer environment, in the regulatory environment and in technology, non-financial risks have been evolving.

As part of the risk mapping and identification process, the Bank reviews key risks, existing or new risks arising from developments in the Bank's business environment, which may materialize over the coming year and with potential to materially impact the Bank's financial results and stability. The Bank also identifies emerging risks, or risks which may materialize over the longer term, with uncertainty about their nature and impact on the Bank. 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.

Since early 2023, there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this time, it is not possible to anticipate the developments and their impact on the Israeli economy and on the Bank.
Below are details of material major and emerging risks identified at the Bank:

**Strategic business risk** – is the risk, in real time or in future, to Bank profits, capital, reputation or status, which may arise from erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates.

This is material risk requiring risk management measures to be applied, assessment and early identification of events which may preclude implementation of the strategy.

The Bank monitors developments of external factors which may impact the Bank's strategic business risk and implementation of its strategic plan. Developments in the business environment which may impact strategic risk include increased geo-political tension, its impact on local and global economic activity, uncertainty in view of Government plans to make changes to the judicial system and the public disagreement over such changes, effect of inflation and higher interest rates, which raised the cost of borrowing, technological developments in the world of finance and changes to consumer preferences, the impact of new legislative initiatives and regulatory provisions in core areas of banking operations. The Bank is preparing for these changes by, *inter alia*, adapting the banking production functions through, inter alia, increased investment in technology, so as to maintain the Bank's position and advantage as an advanced, human bank.
On April 26, 2021, the Bank's Board of Directors approved a five-year strategic plan for 2021-2025 based, inter alia, on positioning the Bank as a key player in business banking, continued leadership position in the mortgage market, establishing the Bank Group's leadership position among households, providing 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 customer choice and needs, as well as offering personalized value propositions across all channels, which are customized for customer needs, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448). Bank results indicate that the Bank has surpassed the business objectives set in the strategic plan.

**Macro-economic risk** – The state of the local and global economy, significant changes in monetary policy and in interest rate curves, market volatility and changes in prices of financial assets in Israel and world-wide and in real estate prices may potentially impact Bank operations and the business-strategic risk.

In the current quarter, higher inflation and interest rate environment continued, with instability in the global and local economic environment, as reflected by the collapse of multiple banks in Europe and in the USA. Furthermore, there is concern about recession in developed nations due to macro-economic data. In early April, the Bank of Israel raised its interest rate to 4.5% and inflation in Israel remained high (1.2% in the first quarter of 2023 and 5% for the trailing twelve months). The higher interest rate and inflation made for higher borrowing costs and may impact the Bank's credit risk. The Bank regularly monitors the potential effects of these developments on its business and economic operations.

**Information security and cyber risk** – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk materializes in case of an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank. Cyber threats towards local and global financial institutions continues to evolve and increase. Attack incidents show increased sophistication and motivation, with a significant increase in the number of cyber events and in the extent of losses due to such events. Moreover, technology and digital developments to the banking system increase the threat surfaces and increase cyber risk. The Bank's information and cyber 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 and in order to reduce the capacity to conduct un-authorized transactions in customer accounts.

**Technological risk** – Technological risk is a significant risk to the banking system, affected by accelerated evolution in technology and digital domains, in order to provide response to changing customer needs. The legacy core systems in the banking system, along with multiple banking regulatory requirements within short timeframes increase the potential damage that may arise from technology risk that is material for proper operation of the Bank. In the first quarter of 2023, the Technology Division continues to fully operate in support of normal Bank operations and in providing a response to current and future technology requirements for such operations.

As part of bolstering its technology infrastructure, the Bank invests heavily in technology systems, in order to address the evolving challenges in the business environment, while maintaining its differentiation as an advanced, human bank. The rapid pace of change in technology, changes to how services are made accessible to customers and expansion of the range of channels used by the Bank and its customers, require constant investment in technology. The Bank is also developing advanced tools for handling data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.

**Compliance and regulatory risk** – Bank business operations are subject to regulation. Compliance risk is the risk of imposition sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with various compliance provisions. Compliance provisions also include the following laws: ISA Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Law, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Law, 1995 (hereinafter: "the Advisory Law"); hereinafter jointly – "securities laws" as well as the Economic Competition Law, 1988. Compliance with these laws is also handled by internal enforcement programs of securities laws and economic competition laws, respectively. Compliance risk also includes Bank compliance with fairness aspects and with privacy protection laws.

Note that the Bank has practically zero risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. Therefore, the Bank has determined that any deficiencies found in compliance with statutory provisions should be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan, which includes required action for reducing compliance risk.

Due to the ongoing Russia-Ukraine war, the Bank continues to monitor the sanction list (including sector-specific sanctions) published with regard to this matter by the USA, EU and the UK and applies these.

**Environmental risk and climate risk**

Environmental risk is risk due to potential 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, 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, derived risks: reputation risk, third-party liability risk and so forth.

Climate risk – risk due to increased frequency and intensity of weather events due to climate change. The Bank faces risk of financial loss or impact to its reputation, due to materialization of physical events, processes or adjustment to transition risk due to climate change. Climate risk includes transition risk, which is regarded as long-term risk. Such risk arises from the accommodation process to a low-carbon economy (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risk that may materialize due to direct impact of extreme events, such as fire, flooding, and due to prolonged change that may result from higher sea levels and temperature changes that may affect the ecological system, desertification processes and so forth.

In recent years, there has been growing awareness in Israel and world-wide of the existence and extent of financial risk due to potential impact of events and processes related to climate change. In early May 2023, the Supervisor of Banks issued a revised draft directive on "Principles for effective management of financial risks related to climate", based on guidance from the Basel Committee, including a directive to implement it within two years from the publication date thereof.

In December 2022, the Supervisor of Banks issued a directive updating the Public Reporting Regulations with regard to disclosure of ESG aspects. This directive expands the disclosure requirements with regard to management of ESG risk (Environment, Social and Governance); Principles of this directive were implemented in the Bank's 2022 ESG Report.

For more information about management of these risks, see chapter "Environment, society and governance" in the 2022 Report by the Board of Directors and Management.

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.

## General mapping of risk factors and their impact

The Bank has specified a framework for risks management and control by the Group, which includes mapping of material risks and their materiality threshold, as well as assignment of Risk Owners for all risks. For each risk, the Bank estimates its potential impact on business operations over the coming year.

The Bank has in place risk identification and measurement processes using diverse methodologies to estimate Bank risk and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks, indicators, sensitivity analysis, scenarios and so forth), as well as qualitative ones (expert assessment and surveys).

The table below lists the risk factors, executives appointed as Risk Owner for each one and management assessment of the impact of each risk factor, on a scale of five risk levels: Low, Low-medium, Medium, Medium, Medium-High and High.

The Bank assesses risk levels based on the estimated impact (potential impact) on Bank capital, during the year under scenarios of different magnitudes, under business as usual conditions and under stress scenarios, based on the severity levels set forth in the framework for risk management and control. Note that the impact of potential damage on Bank equity is assessed by reviewing both quantitative and qualitative benchmarks, including the quality of risk management, emergency plans in place and the Bank's capacity to rapidly and dynamically respond to minimize damage upon materialization of stress events. The assessment of risk level for each risk is subjective, with some of the risks having clear quantitative benchmarks and for others it is based, in part or mostly, on subjective assessment. This is in conformity with the Bank's annual ICAAP process and its outcome, including self-assessment of risk levels, quality of risk management processes and risk control, including expected direction of risk development over the coming year and alignment with work plans of the various departments. These results are extensively discussed by Bank management and Board of Directors.

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 | Effect of the risk factor | Risk owner |
|---|---|---|
| Overall effect of credit risks(1) | Medium | Manager, Corporate Division |
| Risk with respect to borrower and collateral quality | Medium | |
| Risk from industry concentration(1) | Low-Medium | |
| Risk with respect to concentration of borrowers / borrower groups | Low | |
| Risk with respect to mortgage portfolio | Low-medium | |
| Overall effect of market risks(2) | Low-Medium | Manager, Financial Division |
| Interest risk | Medium | |
| Inflation risk | Low-Medium | |
| Foreign currency risk | Low | |
| Liquidity risk | Low-Medium | Manager, Financial Division |
| Overall effect of operational risk | Medium | Manager, Risks Control Division |
| Cyber and information security risk | Medium | Manager, Risks Control Division |
| IT risk | Medium | Manager, Mizrahi Tefahot Technology Division Ltd. |
| Legal risk | Low-Medium | Chief Legal Counsel |
| Compliance and regulatory risks(3) | Low-Medium | Manager, Risks Control Division |
| Reputation risk(4) | Low | Manager, Marketing, Promotion and Business Development Division |
| Business-strategic risk(5) | Low-Medium | President & CEO |

(1) Includes concentration in construction and real estate sector.
(2) Includes options and shares risk.
(3) Includes AML and terror financing risk and cross-border risk.
(4) The risk of impairment of the Bank's results due to negative reports about the Bank.
(5) The definition of business-strategic risk includes the capital planning and management process.

**Below are major developments with regard to risk factors during the reported period:**

In the first quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from end of 2022. Uncertainty continues with regard to global geo-political effects, the state of the global and local economies and changes to the macro-economic environment.

The overall level of credit risk and risk associated with borrower quality and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on business and economic activity of the Bank, the risk assessment remained unchanged and is slightly higher than previously, due to the continued Russia-Ukraine war and changes to the local and global macro-economic environment that increase market uncertainty. Interest rates are high and inflation remains high. These changes may affect Bank operations, increase borrowing costs and affect credit risk.

Risk level in the mortgage portfolio remained Low-Medium, after increasing in the fourth quarter of 2022 from Low, due to uncertainty with regard to potential future impact of higher interest rates and inflation on borrowers' repayment capacity, due to how material the mortgage portfolio is for the Bank, and even though at this time, the risk measures do not point to material deterioration or material change in the risk level. The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite, and should the potential future risk decrease, the risk level in the residential mortgage portfolio would decrease back to Low.

The overall risk level of market and interest risk remained Low-Medium. Interest risk remained Medium, after increasing in the previous quarter from Low-Medium due to the higher interest rates, high uncertainty and potential impact for borrower and depositor behavior.

Due to continued uncertainty with regard to potential developments in changes in the macro-economic environment in Israel and world-wide and continuation of the Russia-Ukraine war, and their impact on the Bank, close monitoring of potential effects of such changes on Bank activity and risk assessment continues, even to a higher degree.

The assessment of the total impact of credit risks and sector concentration includes the risk assessment with respect to Bank exposure to the construction and real estate sector. The Bank is mostly focused on extending credit for construction using the financial support method (closed assistance). Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment, and for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc. The Bank assessment is that these operations have no material impact on the Bank's overall credit risk. The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank remained relatively low at 15.4% (compared to 15.3% at end of 2022).

Liquidity risk remained low-medium. Since early March 2022, the alert level at the Bank was raised to Yellow, due to continued market volatility and continued uncertainty with regard to macro-economic impact. In practice, no events nor indications were observed which would indicate realization of a liquidity event. In the first quarter of 2023, 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) for the first quarter of 2023 was 126%. The net stable funding ratio (on consolidated basis) as of March 31, 2023 was 113% and there were no deviations from the risk appetite limitations.

In the first quarter of 2023, technology risk remained Medium. This is a material risk factor for the Bank, and potential damage due to realization of such risk may be significant. Technological activity is focused on changing needs in line with the Bank's business strategy, and taking most of the steps to mitigate potential risk in as much as possible. In actual fact, there were no material events related to technology.

In the first quarter of 2023, information security and cyber risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts. The Bank continues to bolster and improve its defensive measures in conformity with expansion of threats and challenging needs which the Bank is required to face.

Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks, primarily ransom attacks – the actions taken by the Bank in recent years have maintained risk at the Bank unchanged.

In April, during OpJerusalem day, extensive DDoS attacks were staged against most banking websites, including against the Bank. Throughout this attack, the Bank app and transaction website operated normally, and this attack had no impact on the Bank's business activity.

In the current quarter, compliance and regulatory risk remained Low-Medium. The Bank applies the current and new regulatory provisions. The Bank also continues to monitor the sanction list (including sector-specific sanctions) published with regard to the Russia-Ukraine war by the USA, EU and the UK and applies these as part of the Bank's risk management policy.

In the first quarter of 2023, reputational risk remained Low. The Bank constantly monitors various benchmarks and indicators with regard to the Bank's reputation, and has yet to identify any material impact on reputational risk, despite increased activity of competitors in the market and continued regulatory involvement in promoting competition, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of new regulatory measures.

Legal risk remained Low-medium. Legal risk is the risk of loss due to exposure to fines, lawsuits and punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties). The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units.

**Strategic plan**
For more information about the Bank's strategic plan for 2021-2025, see chapter "Business goals and strategy" of the Report of the Board of Directors and Management for 2022.

### Union Bank merger

The Union Bank merger was successfully completed in late 2022. On March 30, 2023, two agreements were signed that govern matters of onboarding and assignment of regular employees and trainees at the former Union Bank, their onboarding conditions, principles for pay conversion, bonuses, insurance coverage, pension rights, representations of the Associations and provisions for transition and performance. The parties to the agreement are Mizrahi Tefahot Employees' Association and Managers' Association (one agreement with the Employees' Association at the Bank; and another – with the Manager's Association at the Bank), the Labor Union, the Association of Former Union Bank Employees and the Association of Former Union Bank Managers and Authorized Signatories.

### Macro-economic developments

In the first quarter of 2023, higher inflation and interest rate environment continued, with instability in the global and local economic environment, resulting, *inter alia*, in the collapse of multiple banks in Europe and in the USA with continuing concern about recession in developed economies. Therefore, the Bank is closely monitoring exposures to financial institutions. Note that Bank exposure to the impacted financial institutions is negligible.

There is concern that continued higher interest rates and inflation would slow down the economy, increase unemployment and reduce trade – which would be reflected in shrinking import and export. The higher interest rate environment and more costly loans, along with price increases in the market, affect public consumption. The change in Bank of Israel interest rates and in inflation increases monthly payments of mortgage borrowers and the repayment ratio to total borrower income. Higher cost of financing in the real estate sector may increase credit risk in projects under way.

## Overview of weighted risk assets (OV1)

| | Risk weighted assets | | Minimum capital requirements[1] |
|---|---|---|---|
| | **As of March 31, 2023** | **As of December 31, 2022** | **As of March 31, 2023** |
| Credit risk (standard approach)[2] | 228,794 | 225,684 | 28,601 |
| Counter-party credit risk (standard approach) | 2,569 | 2,437 | 321 |
| Credit risk value adjustment (CVA)[3] | 1,379 | 1,230 | 172 |
| Settlement risk | 0 | 7 | – |
| Amounts lower than discount threshold (subject to 250% risk weighting) | 5,129 | 5,025 | 641 |
| **Total credit risk** | **237,871** | **234,383** | **29,735** |
| Market risk (standard approach) | 1,387 | 1,301 | 173 |
| Operational Risk[4] | 17,616 | 16,567 | 2,202 |
| **Total** | **256,874** | **252,251** | **32,110** |

(1) Capital requirement in conformity with required overall minimum capital ratio of 12.5%.
(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 first quarter of 2023 was primarily due to growth in business lending and to growth in the residential mortgage portfolio.

# Capital and leverage

## Composition of supervisory capital

| | | | As of March 31 | As of December 31 |
|---|---|---|---|---|
| | | 2023 | 2022 | 2022 |
| | | | | 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 equity | 3,618 | 3,573 | 3,618 |
| 2 | Retained earnings, including dividends proposed or announced after the balance sheet date | 21,717 | 18,027 | 20,676 |
| 3 | Cumulative other comprehensive income and retained earnings disclosed | (480) | (373) | (497) |
| 5 | Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests) | 556 | 507 | 543 |
| **6** | **Tier I equity before regulatory adjustments and deductions** | 25,411 | 21,734 | 24,340 |
| | **Tier I equity: Supervisory adjustments and deductions** | | | |
| 8 | Goodwill, net of any deferred tax liabilities | 87 | 87 | 87 |
| 9 | Other intangible assets, excluding mortgage service rights, net of deferred tax liabilities | 55 | 75 | 60 |
| 11 | Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet | – | (19) | – |
| 14 | Un-realized gains and losses from changes to fair value of liabilities arising from changes to the banking corporation's own credit risk. Furthermore, with regard to liabilities with respect to derivative instruments, all accounting value adjustments (DVA) arising from the bank's own credit risk should be deducted | 7 | 3 | 6 |
| 26 | Supervisory adjustments and other deductions stipulated by the Supervisor of Banks | (739) | (1,062) | (885) |
| **28** | **Total supervisory adjustments and Tier I deductions** | (590) | (916) | (732) |
| **29** | **Tier I shareholders' equity** | 26,001 | 22,650 | 25,072 |
| 43 | **Total deductions from additional Tier I capital** | – | – | – |
| 44 | **Additional Tier I capital** | – | – | – |
| 45 | **Tier I capital** | 26,001 | 22,650 | 25,072 |
| | **Tier II capital: Instruments and provisions** | | | |
| 46 | Instruments issued by the banking corporation (not included in Tier I capital) and premium for such instruments | 2,169 | 2,009 | 2,150 |
| 48 | Tier II capital instruments issued by subsidiaries of the banking corporation to third-party investors | 3,327 | 3,526 | 3,287 |
| 49 | Of which: Tier II capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, gradually deducted from Tier II capital | – | – | – |
| 50 | Group provisions for credit losses by effect of related tax | 2,766 | 2,129 | 2,578 |
| **51** | **Tier II capital before deductions** | 8,262 | 7,664 | 8,015 |
| | **Tier II capital: Deductions** | | | |
| **57** | **Total deductions from Tier II capital** | – | – | – |
| **58** | **Tier II capital** | 8,262 | 7,664 | 8,015 |
| **59** | **Total capital** | 34,263 | 30,314 | 33,087 |
| **60** | **Total risk weighted assets** | 256,874 | 226,301 | 252,251 |
| | **Capital ratios and capital preservation cushions** | | | |
| 61 | Tier I shareholders' equity | 10.12% | 10.01% | 9.94% |
| 62 | Tier I capital | 10.12% | 10.01% | 9.94% |
| 63 | Total capital | 13.34% | 13.40% | 13.12% |
| | **Minimum requirements stipulated by the Supervisor of Banks** | | | |
| 69 | Minimum Tier I equity ratio required by Supervisor of Banks | 9.60% | 9.61% | 9.60% |
| 70 | Minimum Tier I equity ratio required by Supervisor of Banks | 9.60% | 9.61% | 9.60% |
| 71 | Minimum capital ratio required by the Supervisor of Banks | 12.50% | 12.50% | 12.50% |
| | **Amounts lower than the deduction threshold (before risk weighting)** | | | |
| 72 | Investments in capital of financial corporations (other than banking corporations and subsidiaries thereof), up to 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold | 20 | 109 | 3 |
| 73 | Investments in Tier I equity of financial corporations (other than banking corporations and subsidiaries thereof), over 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold | 2 | 4 | 3 |
| 75 | Deferred tax assets created due to temporary differences, which is below the amortization threshold | 2,129 | 1,775 | 2,007 |

| | | | As of March 31 | As of December 31 |
|---|---|---|---|---|
| | | 2023 | 2022 | 2022 |
| | | | | NIS in millions |
| **Cap for inclusion of provisions in Tier II** | | | | |
| 76 | Provision qualifying for inclusion in Tier II with regard to exposures under the standard approach, before application of the cap | 2,904 | 2,493 | 2,785 |
| 77 | Cap for inclusion of provision in Tier II with regard to exposures under the standard approach | 2,973 | 2,621 | 2,930 |
| **Capital instruments not qualifying as supervisory capital subject to transition provisions** | | | | |
| 84 | Current cap for instruments included in Tier II capital subject to transition provisions (pursuant to transition provisions of Directive 299) | – | 1,195 | – |
| 85 | Amount deducted from Tier II capital due to cap | 36 | 579 | 36 |

(1) Includes deferred credit balance from acquisition of Union Bank as from September 30, 2020.

## Supervisory 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 March 31, 2023, the Bank had no capital 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.

### Bank approach to capital adequacy assessment

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

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 requirements to supervisory entity and to the public.

### Minimum capital ratio requirement

Capital ratios are calculated as the ratio of capital to weighted risk assets. Tier I equity ratio us calculated as the ratio of Tier I equity to weighted risk assets, and the total capital ratio is calculated as the ratio of total capital to weighted risk assets.

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5%. An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance.

For more information, see Note 9 to the financial statements.

## Leverage ratio

The Bank applies the rules in Proper Conduct of Banking Business 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 exposures. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.

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

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.

On May 15, 2022, the Supervisor of Banks issued another circular, whereby this relief shall apply through June 30, 2024, provided that the leverage ratio would be no less than the leverage ratio as of December 31, 2023, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

The Bank's leverage ratio as of March 31, 2023 is 5.53%, compared to 5.42% as of December 31, 2022.

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 March 31, 2023** | **As of March 31, 2022** | **As of December 31, 2022** |
|---|---|---|---|
| Total assets according to consolidated financial statements | 434,110 | 394,045 | 428,292 |
| Adjustments with respect to financial derivatives | 3,189 | (284) | 2,612 |
| Adjustments with respect to off-balance sheet items(1) | 29,738 | 30,152 | 29,358 |
| Other adjustments | 2,888 | 2,331 | 2,748 |
| **Exposure for leverage ratio** | **469,925** | **426,244** | **463,010** |

(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 March 31, 2023 | As of March 31, 2022 | As of December 31, 2022 |
|---|---|---|---|
| **Composition of exposures and leverage ratio (NIS in millions)** | | | |
| **On-balance sheet exposures** | | | |
| Assets on balance sheet | 428,882 | 390,621 | 423,160 |
| Amounts with respect to assets deducted to determine Tier I capital | (142) | (162) | (147) |
| **Total on-balance sheet exposures** | **428,740** | **390,459** | **423,013** |
| **Exposures with respect to derivatives** | | | |
| Subrogation cost for all transactions with respect to derivatives | 3,213 | 3,133 | 2,972 |
| Additional amounts with respect to future potential exposure for all transactions with respect to derivatives | 5,869 | 1,493 | 5,113 |
| Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives | – | – | – |
| Deductions of receivable assets with respect to variable cash collateral provided in derivatives transactions | – | (971) | – |
| Exempt central counter-party leg of commercial exposures disposed by the customer | – | – | – |
| Adjusted effective par amount of credit derivatives written | 291 | 254 | 281 |
| Adjusted effective par offsets and deduction of additions with respect to credit derivatives written | – | – | – |
| **Total exposure with respect to derivatives** | **9,373** | **3,909** | **8,366** |
| **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 | 2,074 | 1,724 | 2,273 |
| 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 | – | – | – |
| Exposures with respect to transactions as agent | – | – | – |
| **Total exposure with respect to securities financing transactions** | **2,074** | **1,724** | **2,273** |
| **Other off-balance sheet exposures** | | | |
| Off-balance sheet exposure in par value, gross | 100,474 | 107,655 | 98,930 |
| Adjustments with respect to conversion to credit equivalent amounts | (70,736) | (77,503) | (69,572) |
| Off-balance sheet items | 29,738 | 30,152 | 29,358 |
| **Capital and total exposure** | | | |
| Tier I capital | 26,001 | 22,650 | 25,072 |
| Total exposure | 469,925 | 426,244 | 463,010 |
| **Leverage ratio** | | | |
| Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218 | 5.53% | 5.31% | 5.42% |
| Minimum leverage ratio required by the Supervisor of Banks | 4.50% | 4.50% | 4.50% |

# 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 meet their obligations to the Bank. Credit risk is a material risk for Bank operations. This risk is affected by these major factors: Business risk due to customer activities, concentration risk due to over-exposure to a borrower or 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 and operational risks which, should they materialize, would have implications for credit risks. This risk is also inter-related with some other risks, such as: market and interest risk, liquidity risk, compliance risk and other risks.

Credit is at the core of banking activity, and therefore this is the primary risk of all risk types addressed by the banking system. Consequently, the lion's share of capital allocated in Pillar 1 is due to credit risk.

For more information about credit risk, see chapter "Credit risk" in the 2022 Risks Report, available on the Bank website.

# Credit quality of credit exposures (CR1)

| | | | | March 31, 2023 |
|---|---|---|---|---|
| | Gross balances(1) | | | |
| | Non-accruing or in arrears 90 days or longer | Others | Provisions for credit losses | Net balance |
| Debts, except for bonds | 2,791 | 397,828 | 3,097 | 397,522 |
| Bonds | – | 12,496 | – | 12,496 |
| Off-balance sheet exposures(2) | – | 100,111 | 181 | 99,930 |
| **Total** | **2,791** | **510,435** | **3,278** | **509,948** |

| | | | | March 31, 2022 |
|---|---|---|---|---|
| | Gross balances(1) | | | |
| | Non-accruing or in arrears 90 days or longer | Others | Provisions for credit losses | Net balance |
| Debts, except for bonds | 2,673 | 363,081 | 2,540 | 363,214 |
| Bonds | – | 15,393 | – | 15,393 |
| Off-balance sheet exposures(2) | 11 | 107,149 | 213 | 106,947 |
| **Total** | **2,684** | **485,623** | **2,753** | **485,554** |

| | | | | December 31, 2022 |
|---|---|---|---|---|
| | Gross balances(1) | | | |
| | Non-accruing or in arrears 90 days or longer | Others | Provisions for credit losses | Net balance |
| Debts, except for bonds | 2,690 | 393,974 | 2,884 | 393,780 |
| Bonds | – | 11,548 | – | 11,548 |
| Off-balance sheet exposures(2) | – | 99,117 | 220 | 98,897 |
| **Total** | **2,690** | **504,639** | **3,104** | **504,225** |

(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)

## Credit risk mitigation methods (CR3)

| | Non-secured | Secured | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| As of March 31, 2023 | | | | 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 |
| Debts, except for bonds | 340,665 | 55,492 | 17,911 | 27,920 | 6,909 | 27,572 | 11,002 | – | – |
| Bonds | 12,496 | – | – | – | – | – | – | – | – |
| **Total** | **353,161** | **55,492** | **17,911** | **27,920** | **6,909** | **27,572** | **11,002** | **–** | **–** |
| Of which: Non-accruing or in arrears 90 days or longer | 1,882 | 562 | 187 | 243 | 59 | 320 | 127 | – | – |

| | Non-secured | Secured | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| As of March 31, 2022 | | | | 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 |
| Debts, except for bonds | 325,122 | 38,646 | 15,201 | 30,242 | 10,492 | 8,404 | 4,709 | – | – |
| Bonds | 15,393 | – | – | – | – | – | – | – | – |
| **Total** | **340,515** | **38,646** | **15,201** | **30,242** | **10,492** | **8,404** | **4,709** | **–** | **–** |
| Of which: Non-accruing or in arrears 90 days or longer | 3,593 | 285 | 59 | 25 | 18 | 260 | 40 | – | – |

| | Non-secured | Secured | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| As of December 31, 2022 | | | | 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 |
| Debts, except for bonds | 345,390 | 48,390 | 16,227 | 33,552 | 8,811 | 14,838 | 7,416 | – | – |
| Bonds | 11,548 | – | – | – | – | – | – | – | – |
| **Total** | **356,938** | **48,390** | **16,227** | **33,552** | **8,811** | **14,838** | **7,416** | **–** | **–** |
| Of which: Non-accruing or in arrears 90 days or longer | 1,759 | 738 | 199 | 311 | 64 | 427 | 134 | – | – |

(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 using the standard approach

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

| Asset types / risk weighting | 0% | 20% | 35% | 50% | 60% | 75% | 100% | 150% | Other | Total credit exposures (after conversion factors and collateral deduction) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | **As of March 31, 2023** |
| Sovereigns, central banks thereof and national monetary authority | 96,822 | 105 | – | – | – | – | 105 | – | – | 97,032 |
| Public sector entities (PSE) other than central Government | 237 | 1,674 | – | 49 | – | – | 4 | – | – | 1,964 |
| Banks (including multilateral development banks) | – | 3,484 | – | 987 | – | – | 116 | – | – | 4,587 |
| Securities companies | – | 972 | – | – | – | – | – | – | – | 972 |
| Corporations | – | 11,403 | – | 6,294 | – | – | 68,701 | 2,580 | 275 | 89,253 |
| Retail exposures to individuals | – | – | – | – | – | 27,639 | – | – | – | 27,639 |
| Loans to small businesses | – | – | – | – | – | 13,133 | 4 | – | – | 13,137 |
| Secured by residential property | – | – | 55,414 | 45,728 | 54,627 | 26,978 | 9,750 | – | – | 192,497 |
| Secured by commercial property | – | – | – | – | – | – | 5,529 | – | – | 5,529 |
| Loans in arrears | – | – | – | – | – | – | 655 | 1,932 | – | 2,587 |
| Other assets | 2,441 | – | – | – | – | – | 3,623 | 403 | 5 | 6,472 |
| Of which: with respect to shares | – | – | – | – | – | – | 287 | 162 | – | 449 |
| **Total** | **99,500** | **17,638** | **55,414** | **53,058** | **54,627** | **67,750** | **88,487** | **4,915** | **280** | **441,669** |
| | | | | | | | | | | **As of March 31, 2022** |
| Sovereigns, central banks thereof and national monetary authority | 95,680 | 96 | – | 3 | – | – | 41 | – | – | 95,820 |
| Public sector entities (PSE) other than central Government | 167 | 2,590 | – | 19 | – | – | 2 | – | – | 2,778 |
| Banks (including multilateral development banks) | – | 2,851 | – | 712 | – | – | 132 | – | – | 3,695 |
| Securities companies | – | 859 | – | – | – | – | – | – | – | 859 |
| Corporations | – | 9,940 | – | 381 | – | – | 63,387 | 1 | – | 73,709 |
| Retail exposures to individuals | – | – | – | – | – | 25,954 | – | – | – | 25,954 |
| Loans to small businesses | – | – | – | – | – | 12,950 | 4 | – | – | 12,954 |
| Secured by residential property | – | – | 58,251 | 44,036 | 43,834 | 30,507 | 163 | – | – | 176,791 |
| Secured by commercial property | – | – | – | – | – | – | 5,602 | – | – | 5,602 |
| Loans in arrears | – | – | – | – | – | – | 3,536 | 1,353 | – | 4,889 |
| Other assets | 2,306 | – | – | – | – | – | 3,462 | 389 | 4 | 6,161 |
| Of which: with respect to shares | – | – | – | – | – | – | 494 | 192 | – | 686 |
| **Total** | **98,153** | **16,336** | **58,251** | **45,151** | **43,834** | **69,411** | **76,329** | **1,743** | **4** | **409,212** |
| | | | | | | | | | | **As of December 31, 2022** |
| Sovereigns, central banks thereof and national monetary authority | 98,067 | 105 | – | – | – | – | 8 | – | – | 98,180 |
| Public sector entities (PSE) other than central Government | 148 | 1,683 | – | 48 | – | – | 5 | – | – | 1,884 |
| Banks (including multilateral development banks) | – | 2,987 | – | 1,136 | – | – | 102 | – | – | 4,225 |
| Securities companies | – | 807 | – | – | – | – | – | – | – | 807 |
| Corporations | – | 10,494 | – | 3,544 | – | – | 68,248 | 3,280 | 206 | 85,772 |
| Retail exposures to individuals | – | – | – | – | – | 27,461 | – | – | – | 27,461 |
| Loans to small businesses | – | – | – | – | – | 13,045 | 4 | – | – | 13,049 |
| Secured by residential property | – | – | 57,480 | 44,752 | 51,623 | 25,644 | 9,897 | – | – | 189,396 |
| Secured by commercial property | – | – | – | – | – | – | 5,136 | – | – | 5,136 |
| Loans in arrears | – | – | – | – | – | – | 1,003 | 2,347 | – | 3,350 |
| Other assets | 3,117 | – | – | – | – | – | 3,489 | 425 | 4 | 7,035 |
| Of which: with respect to shares | – | – | – | – | – | – | 259 | 190 | – | 449 |
| **Total** | **101,332** | **16,076** | **57,480** | **49,480** | **51,623** | **66,150** | **87,892** | **6,052** | **210** | **436,295** |

(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 mitigation methods.

# Counter-party credit risk

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

| | As of March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Subrogation cost | Future potential exposure | Alpha used to calculate regulatory EAD | Exposure after deduction of collateral | Risk assets |
| Standard approach for counter-party risk (SA-CCR) (for derivatives) | 1,904 | 4,128 | 1.4 | 8,444 | 2,496 |
| Comprehensive approach to credit risk mitigation (for securities financing transactions) | – | – | | 82 | 60 |
| **Total** | **1,904** | **4,128** | | **8,526** | **2,556** |

| | As of March 31, 2022 | | | |
|---|---|---|---|---|
| | Subrogation cost | Future potential exposure | Exposure after deduction of collateral | Risk assets |
| Current exposure method | 2,199 | 1,807 | 2,042 | 938 |
| Comprehensive approach to credit risk mitigation (for securities financing transactions) | – | – | 178 | 72 |
| **Total** | **2,199** | **1,807** | **2,220** | **1,010** |

| | As of December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | Subrogation cost | Future potential exposure | Alpha used to calculate regulatory EAD | Exposure after deduction of collateral | Risk assets |
| Current exposure method | 1,715 | 3,534 | 1.4 | 7,348 | 2,327 |
| Comprehensive approach to credit risk mitigation (for securities financing transactions) | – | – | | 96 | 96 |
| **Total** | **1,715** | **3,534** | | **7,444** | **2,423** |

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

| | As of March 31, 2023 | | As of March 31, 2022 | | As of December 31, 2022 | |
|---|---|---|---|---|---|---|
| | 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 | 8,444 | 1,379 | 2,048 | 616 | 7,348 | 1,230 |

**Standard approach – exposures to counter-party credit risk (CCR) by supervisory portfolio and risk weightings (CCR3) (NIS in millions)**

| | As of March 31, 2023 | | | |
|---|---|---|---|---|
| **Supervisory portfolio / risk weighting** | **0%** | **20%** | **100%** | **Total credit exposure** |
| Sovereigns | 17 | – | – | 17 |
| Public sector entities (PSE) other than central Government | – | 37 | – | 37 |
| Banks (including multilateral development banks) | – | 3,616 | – | 3,616 |
| Securities companies | – | 3,757 | – | 3,757 |
| Corporations | – | – | 1,002 | 1,007 |
| Supervisory retail portfolios | – | – | 10 | 10 |
| Other assets | – | – | – | – |
| **Total** | **17** | **7,410** | **1,012** | **8,444** |

| | As of March 31, 2022 | | | |
|---|---|---|---|---|
| **Supervisory portfolio / risk weighting** | **0%** | **20%** | **100%** | **Total credit exposure** |
| Sovereigns | 14 | – | – | 14 |
| Public sector entities (PSE) other than central Government | – | 3 | – | 3 |
| Banks (including multilateral development banks) | – | 784 | – | 784 |
| Securities companies | – | 728 | – | 728 |
| Corporations | – | 199 | 310 | 509 |
| Supervisory retail portfolios | – | – | 4 | 4 |
| Other assets | – | – | – | – |
| **Total** | **14** | **1,714** | **314** | **2,042** |

| | As of December 31, 2022 | | | |
|---|---|---|---|---|
| **Supervisory portfolio / risk weighting** | **0%** | **20%** | **100%** | **Total credit exposure** |
| Sovereigns | 7 | – | – | 7 |
| Public sector entities (PSE) other than central Government | – | 26 | – | 26 |
| Banks (including multilateral development banks) | – | 2,406 | – | 2,406 |
| Securities companies | – | 3,834 | – | 3,834 |
| Corporations | – | – | 1,061 | 1,061 |
| Supervisory retail portfolios | – | – | 14 | 14 |
| Other assets | – | – | – | – |
| **Total** | **7** | **6,266** | **1,075** | **7,348** |

**Composition of collateral with respect to exposure to counter-party credit risk[1] (CCR) (5CCR) (NIS in millions)**

| | As of March 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Collateral used in derivatives transactions | | | | Collateral used in securities financing transactions | |
| | Fair value of collateral received | | Fair value of collateral deposited | | Fair value of collateral received | Fair value of collateral deposited |
| | Discon-nected | Not discon-nected | Discon-nected | Not discon-nected | | |
| Cash – local currency | – | 1,207 | – | 296 | 1,717 | – |
| Cash – other currency | – | 1,884 | – | 1,800 | 3 | – |
| Domestic sovereign debt | – | 529 | – | – | 58 | – |
| Other sovereign debt | – | 231 | – | – | – | – |
| Debt of Government agency | – | – | – | – | – | – |
| Corporate bonds | – | 80 | – | – | 18 | – |
| Shares | – | 690 | – | – | 182 | – |
| Other collateral | – | – | – | – | – | – |
| **Total** | **–** | 4,621 | **–** | 2,096 | 1,978 | **–** |

| | As of March 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Collateral used in derivatives transactions | | | | Collateral used in securities financing transactions | |
| | Fair value of collateral received | | Fair value of collateral deposited | | Fair value of collateral received | Fair value of collateral deposited |
| | Discon-nected | Not discon-nected | Discon-nected | Not discon-nected | | |
| Cash – local currency | – | 665 | – | – | 1,051 | – |
| Cash – other currency | – | 1,007 | – | – | 3 | – |
| Domestic sovereign debt | – | 15 | – | – | 12 | – |
| Other sovereign debt | – | – | – | – | – | – |
| Debt of Government agency | – | – | – | – | – | – |
| Corporate bonds | – | 6 | – | – | 8 | – |
| Shares | – | 743 | – | – | 369 | – |
| Other collateral | – | – | – | – | – | – |
| **Total** | **–** | 2,436 | **–** | **–** | 1,443 | **–** |

| | As of December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Collateral used in derivatives transactions | | | | Collateral used in securities financing transactions | |
| | Fair value of collateral received | | Fair value of collateral deposited | | Fair value of collateral received | Fair value of collateral deposited |
| | Discon-nected | Not discon-nected | Discon-nected | Not discon-nected | | |
| Cash – local currency | – | 1,470 | – | 297 | 1,500 | – |
| Cash – other currency | – | 1,319 | – | 2,039 | 3 | – |
| Domestic sovereign debt | – | 344 | – | – | 26 | – |
| Other sovereign debt | – | 238 | – | – | – | – |
| Debt of Government agency | – | – | – | – | – | – |
| Corporate bonds | – | 21 | – | – | 45 | – |
| Shares | – | 937 | – | – | 289 | – |
| Other collateral | – | – | – | – | – | – |
| **Total** | **–** | 4,329 | **–** | 2,336 | 1,863 | |

(1) Amounts refer to collateral deposited or received with respect to exposures arising from counter-party credit risk related to transactions in derivatives or to securities financing transactions, including transactions settled by a Central Counter-Party (CCP)

# 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 shares is not material, so that its primary exposure to market risk is due to basis risk – the risk existing when assets and liabilities of the Bank are denominated in different currencies or in different linkage segments, and to interest rate risk, which is the risk to Bank profit and to Bank economic 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 to 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 2022 Risks Report, available on the Bank website.

## Market risk using the standard approach

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

| | Risk assets as of: | | |
|---|---|---|---|
| | **March 31, 2023** | **March 31, 2022** | **December 31, 2022** |
| **Direct products** | | | |
| Interest rate risk (general and specific) | 1,069 | 2,145 | 1,090 |
| Position risk in shares (general and specific) | 34 | 41 | 44 |
| Foreign currency risk | 262 | 243 | 125 |
| Commodities risk | – | – | – |
| Options | – | – | – |
| Delta Plus approach | 22 | 17 | 42 |
| Securitization | – | – | – |
| **Total** | **1,387** | **2,446** | **1,301** |

As noted above, exposure in the trading portfolio is low, and mostly due to 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 due to uncertainty about resource availability and the capacity to realize assets in a specified time at a reasonable price.

Liquidity risk is a unique, material risk due to the need to respond to such risk within the shortest time possible. Materialization of this risk may cause the Bank to incur significant losses, or may even bring about collapse of the Bank.

For more information about liquidity risk, see chapter "Liquidity risk" in the 2022 Risks Report, available on the Bank website.

## Liquidity coverage ratio (LIQ1)

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

| | Three months ended March 31, 2023 | |
|---|---|---|
| | **Total unweighted value(2) (Average)** | **Total weighted value(3) (Average)** |
| **Total high quality liquid assets** | | |
| **Total high quality liquid assets (HQLA)** | | **83,031** |
| **Outgoing cash flows** | | |
| Retail deposits from individuals and from small businesses, of which: | 174,032 | 10,604 |
| Stable deposits | 41,919 | 2,096 |
| Less stable deposits | 57,097 | 6,257 |
| Deposits for term longer than 30 days | 75,017 | 2,250 |
| Non-secured wholesale financing, of which: | 89,650 | 58,581 |
| Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations | 3,565 | 891 |
| Deposits other than for operational needs (all counter parties) | 85,913 | 57,518 |
| Non-secured debts | 172 | 172 |
| Secured wholesale financing | – | 272 |
| Other liquidity requirements, of which: | 154,080 | 66,446 |
| Outgoing cash flows with respect to exposure to derivatives and other collateral requirements | 59,278 | 59,278 |
| Credit lines and liquidity | 54,028 | 4,652 |
| Other contractual financing obligations | – | – |
| Other contingent financing obligations | 40,773 | 2,516 |
| **Total outgoing cash flows** | **417,762** | **135,904** |
| **Incoming cash flows** | | |
| Secured loans | 1,603 | 315 |
| Incoming cash flows from exposures repaid regularly | 16,092 | 11,516 |
| Other incoming cash flows | 60,890 | 58,208 |
| **Total incoming cash flows** | **78,586** | **70,039** |
| **Total high quality liquid assets (HQLA)** | | **83,031** |
| **Total outgoing cash flows, net** | | **65,864** |
| **Liquidity coverage ratio (%)** | | **126%** |

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used to calculate averages in the first quarter of 2023 is 77.

(2) Un-weighted values are calculated as un-settled balances to be repaid or repayable by the holder within 30 days (for incoming and outgoing cash flows).

(3) Weighted values are calculated after applying appropriate safety factors or rates of incoming and outgoing cash flows (for incoming and outgoing cash flows).

(4) Adjusted values are calculated after applying: Safety factors and rates of incoming and outgoing cash flows, as well as other relevant limitations (i.e. limitation on high quality liquid assets and limitation on incoming cash flows, as set forth in Proper Conduct of Banking Business Directive 221).

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

| | Three months ended March 31, 2022 | |
|---|---|---|
| | **Total unweighted value[2] (Average)** | **Total weighted value[3] (Average)** |
| **Total high quality liquid assets** | | |
| **Total high quality liquid assets (HQLA)** | | **85,927** |
| **Outgoing cash flows** | | |
| Retail deposits from individuals and from small businesses, of which: | 155,299 | 10,332 |
| Stable deposits | 43,467 | 2,174 |
| Less stable deposits | 61,722 | 6,655 |
| Deposits for term longer than 30 days | 50,110 | 1,503 |
| Non-secured wholesale financing, of which: | 96,695 | 62,179 |
| Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations | 3,656 | 914 |
| Deposits other than for operational needs (all counter parties) | 92,957 | 61,183 |
| Non-secured debts | 82 | 82 |
| Secured wholesale financing | – | 235 |
| Other liquidity requirements, of which: | 134,782 | 45,352 |
| Outgoing cash flows with respect to exposure to derivatives and other collateral requirements | 36,542 | 36,542 |
| Credit lines and liquidity | 61,372 | 5,295 |
| Other contingent financing obligations | 899 | 899 |
| **Total outgoing cash flows** | **386,776** | **118,099** |
| **Incoming cash flows** | | |
| Secured loans | 2,147 | 369 |
| Incoming cash flows from exposures repaid regularly | 14,676 | 10,614 |
| Other incoming cash flows | 37,925 | 35,392 |
| **Total incoming cash flows** | **54,748** | **46,375** |
| | | **Total adjusted value[4]** |
| **Total high quality liquid assets (HQLA)** | | **85,927** |
| **Total outgoing cash flows, net** | | **71,724** |
| **Liquidity coverage ratio (%)** | | **120%** |

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used to calculate averages in the first quarter of 2022 is 76.

(2) Un-weighted values are calculated as un-settled balances to be repaid or repayable by the holder within 30 days (for incoming and outgoing cash flows).

(3) Weighted values are calculated after applying appropriate safety factors or rates of incoming and outgoing cash flows (for incoming and outgoing cash flows).

(4) Adjusted values are calculated after applying: Safety factors and rates of incoming and outgoing cash flows, as well as other relevant limitations (i.e. limitation on high quality liquid assets and limitation on incoming cash flows, as set forth in Proper Conduct of Banking Business Directive 221).

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

| | Three months ended December 31, 2022 | |
|---|---|---|
| | **Total unweighted value[2] (Average)** | **Total weighted value[3] (Average)** |
| **Total high quality liquid assets** | | |
| **Total high quality liquid assets (HQLA)** | | **84,000** |
| **Outgoing cash flows** | | |
| Retail deposits from individuals and from small businesses, of which: | 170,307 | 10,832 |
| Stable deposits | 43,214 | 2,161 |
| Less stable deposits | 61,119 | 6,693 |
| Deposits for term longer than 30 days | 65,973 | 1,979 |
| Non-secured wholesale financing, of which: | 94,534 | 62,030 |
| Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations | 3,497 | 874 |
| Deposits other than for operational needs (all counter parties) | 90,954 | 61,072 |
| Non-secured debts | 84 | 84 |
| Secured wholesale financing | – | 266 |
| Other liquidity requirements, of which: | 155,051 | 63,853 |
| Outgoing cash flows with respect to exposure to derivatives and other collateral requirements | 55,678 | 55,678 |
| Credit lines and liquidity | 56,174 | 4,630 |
| Other contractual financing obligations | – | – |
| Other contingent financing obligations | 35,185 | 3,545 |
| **Total outgoing cash flows** | **419,892** | **136,982** |
| **Incoming cash flows** | | |
| Secured loans | 2,396 | 398 |
| Incoming cash flows from exposures repaid regularly | 15,041 | 10,880 |
| Other incoming cash flows | 56,992 | 54,273 |
| **Total incoming cash flows** | **74,429** | **65,551** |
| | | **Total adjusted value[4]** |
| **Total high quality liquid assets (HQLA)** | | **84,000** |
| **Total outgoing cash flows, net** | | **71,431** |
| **Liquidity coverage ratio (%)** | | **118%** |

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the fourth quarter of 2022 is 73.

(2) Un-weighted values were calculated as un-settled balances to be repaid or repayable by the holder within 30 days (for incoming and outgoing cash flows).

(3) Weighted values were calculated after applying appropriate safety factors or rates of incoming and outgoing cash flows (for incoming and outgoing cash flows).

(4) Adjusted values were calculated after applying: Safety factors and rates of incoming and outgoing cash flows, as well as other relevant limitations (i.e. limitation on high quality liquid assets and limitation on incoming cash flows, as set forth in Proper Conduct of Banking Business Directive 221).

## Key factors that impact results of the liquidity coverage ratio

The key factors that impact results of the liquidity coverage ratio are source composition and uses at the Bank. High quality liquid assets (HQLA) are assets at level 1, typically highly negotiable and carrying low risk, including: cash, current and deposit accounts with central banks, bonds of sovereigns with risk weighting of 0% and bonds of the State of Israel. Most of the outgoing cash flow is against non-secured wholesale financing – deposits deposited at the Bank by corporations and financial entities, as well as outgoing cash flows with respect to exposure to derivatives. Cash inflows primarily consist of credit receipts and inflows with respect to exposure to derivatives.

Typically, the ratio is mostly cyclical, and may be forecasted using internal estimates of the Bank. The key factor which affects over time the development of this ratio is growth of Bank operations, both in raising and managing the source structure and in increased uses. There is some volatility between days of the month, due to current activity of customers and interchangeability between NIS and foreign currency, primarily due to activity in NIS or foreign currency derivatives.

### Composition of high quality liquid assets (HQLA)

Below is information about liquid assets by level, as required by Directive 221 (NIS in millions):

| | March 31 | | Average for the first quarter | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Level 1 assets | 85,680 | 81,073 | 82,934 | 85,760 |
| Level 2a assets | 63 | 86 | 65 | 82 |
| Level 2b assets | 31 | 88 | 32 | 85 |
| **Total HQLA** | **85,774** | **81,247** | **83,031** | **85,927** |

A regulatory limitation is in place for the Los Angeles branch, with regard to using the liquid reserve of this entity. Bank scenarios assume us of branch liquidity, considering the limitation.

### Composition of pledged and un-pledged available assets:

| | As of March 31, 2023 | | |
|---|---|---|---|
| | Total balance on balance sheet | Of which: Pledged | Of which: Non-pledged |
| Cash and deposits with central banks | 86,767 | 5,492 | 81,275 |
| Bonds of the Government of Israel | 14,941 | 158 | 14,783 |
| Bonds of others in Israel | 1,803 | – | 1,803 |
| Bonds of overseas governments | 1,499 | 471 | 1,028 |
| Bonds of others overseas | 512 | – | 512 |
| Loans to the public, net | 312,319 | 3,950 | 308,369 |
| **Total** | **417,841** | **10,071** | **407,770** |

| | As of March 31, 2022 | | |
|---|---|---|---|
| | Total balance on balance sheet | Of which: Pledged | Of which: Non-pledged |
| Cash and deposits with central banks | 82,827 | 2,518 | 80,309 |
| Bonds of the Government of Israel | 10,637 | 941 | 9,696 |
| Bonds of others in Israel | 1,437 | – | 1,437 |
| Bonds of overseas governments | 3,681 | 293 | 3,388 |
| Bonds of others overseas | 487 | – | 487 |
| Loans to the public, net | 282,917 | 6,056 | 276,861 |
| **Total** | **381,986** | **9,808** | **372,178** |

| | As of December 31, 2022 | | |
|---|---|---|---|
| | Total balance on balance sheet | Of which: Pledged | Of which: Non-pledged |
| Cash and deposits with central banks | 91,652 | 5,437 | 86,215 |
| Bonds of the Government of Israel | 10,732 | 294 | 10,438 |
| Bonds of others in Israel | 1,782 | – | 1,782 |
| Bonds of overseas governments | 1,457 | 364 | 1,093 |
| Bonds of others overseas | 521 | – | 521 |
| Loans to the public, net | 307,472 | 4,150 | 303,322 |
| **Total** | 413,616 | 10,245 | 403,371 |

## Developments in liquidity coverage ratio

In the first quarter of 2023, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (on consolidated basis) for the first quarter of 2023 was 126%, higher than in the fourth quarter of 2022 (118%). There were no recorded deviations from ratio restrictions during this quarter. The increase in ratio in this quarter is due to decrease in outgoing cash flow due to deposits raised for a longer term.

# Net stable funding ratio (LIQ2)

**Net stable funding ratio**

On June 21, 2021, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 222 regarding "Net stable funding ratio (NSFR)", which stipulates calculation of the ratio as specified in the Basel III Reform of the Basel Committee (BCBS).
In conformity with this directive, the objective of the net stable funding ratio is 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 ratio limits over-reliance by banking corporations on short-term wholesale funding. The net stable funding ratio consists of two components: available stable funding items and required stable funding items.
As required in the directive, the net stable funding ratio should be 100% or higher on regular basis.
In conformity with the directive, "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

Below is information about the net stable funding ratio(1) (NIS in millions) as of March 31, 2023:

| | A | B | C | D | E |
|---|---|---|---|---|---|
| | Non-weighted value by term to maturity | | | | |
| **Available stable funding items (ASF)** | **No maturity (1)** | **Up to 6 Months** | **From 6 months Up to 1 year** | **12 months or longer** | **Weighted value** |
| **Capital:** | 29,489 | 30 | 588 | 4,487 | 34,269 |
| Supervisory capital | 29,489 | | | 1,445 | 30,934 |
| Other capital instruments | | 30 | 588 | 3,041 | 3,335 |
| **Retail deposits from individuals and from small businesses** | | 131,648 | 20,332 | 10,857 | 150,077 |
| Stable deposits | | 45,472 | 3,276 | 1,698 | 48,008 |
| Less stable deposits | | 86,176 | 17,056 | 9,160 | 102,068 |
| **Wholesale financing** | | 163,306 | 21,469 | 40,863 | 87,069 |
| Deposits for operational needs | | 3,712 | | | 1,856 |
| Other wholesale financing | | 159,594 | 21,469 | 40,863 | 85,213 |
| **Liabilities with matching assets which are inter-dependent** | | | | | |
| **Other liabilities:** | 173 | 5,572 | 3,724 | 2,284 | 4,146 |
| Liabilities with respect to derivative instruments for net stable funding ratio | | | | 5,988 | |
| All other liabilities and capital not included in the above categories | 173 | 5,572 | 3,724 | 2,284 | 4,146 |
| **Total available stable funding items (ASF)** | | | | | 275,561 |
| **Required stable funding items (RSF)** | | | | | |
| **Total high-quality liquid assets by net stable funding ratio (HQLA)** | | | | | 661 |
| **Deposits held at other financial institutions for operational purposes** | | | | | |
| **Loans and securities in good standing:** | | 85,482 | 23,554 | 220,061 | 226,698 |
| Loans to financial institutions in good standing, secured by level 1 high-quality liquid assets | | | | | |
| Loans to financial institutions in good standing, secured by high-quality liquid assets other than in level 1, and loans to financial institutions in good standing which are not secured | | 12,081 | 7,071 | 7,580 | 12,472 |
| Loans to wholesale customers, other than financial institutions, which are in good standing, loans to retail customers and to small businesses and loans to sovereigns, to central banks and to public sector entities | | 64,431 | 7,073 | 28,020 | 58,970 |
| Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203 | | 4 | 6 | 43 | 33 |
| Residential mortgages secured by mortgage in good standing, of which: | | 8,970 | 9,393 | 184,214 | 155,037 |
| Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203 | | 3,231 | 3,399 | 53,635 | 38,178 |
| Securities not in default which do not qualify as high-quality liquid assets, including shares traded on the stock exchange | | 0 | 17 | 247 | 219 |
| **Assets with corresponding liabilities which are inter-dependent** | | | | | |
| **Other assets:** | 1,951 | 702 | 1,638 | 6,240 | 11,875 |
| Physically traded commodities, including gold | | | | | |
| Assets deposited as primary collateral for derivative contracts and provided to default funds of central counter parties (CCPs) | | | | 1,254 | 1,254 |
| Assets with respect to derivative instruments for net stable funding ratio | | | | 6,257 | 13 |
| Liabilities with respect to derivative instruments for net stable funding ratio, before deduction of variable collateral deposited | | | | 78 | 78 |
| All other asset categories not included in the above categories | 1,951 | 702 | 1,638 | 6,240 | 10,531 |
| **Off-balance sheet items** | | | | 93,602 | 4,145 |
| **Total required stable funding (RSF)** | | | | | 243,380 |
| **Net stable funding ratio (%)** | | | | | 113% |

## Key factors that impact results of the net stable funding ratio

Net stable funding ratio on consolidated basis as of March 31, 2023 was 113%, compared to 115% on December 31, 2022. This slight decrease in ratio is due to an increase, quarter over quarter, in required total net stable financing (primarily under loans), which was higher than the increase, quarter over quarter, in total available net stable funding (primarily under deposits from individuals and small businesses and retail financing).

Volatility of this ratio throughout the quarter was low; the main factors affecting the net stable funding ratio are: composition of Bank sources and uses by financing term, financing type and counter party. On the sources side – long-term liabilities are more stable than short-term liabilities, and funding from retail customers and small businesses is more stable than wholesale funding with the same maturity. When long-term sources grow shorter on a large scale (such as with subordinated notes) to a term shorter than one year, this factor affects the resulting ratio; however, because this is a funding source which typically has scattered maturities, the impact on the resulting ratio is not material. On the uses side – asset type, asset term and quality and liquidity value determine the required stable funding amount.

# Glossary and index of terms included on the risks report

Below is a summary of terms used on the risks report:

## Terms with regard to risk management and capital adequacy at the Bank

| | |
|---|---|
| **B** | **Basel – Basel II / Basel III** – A framework for assessment of capital adequacy and risk management, published by the Basel Committee on Bank Supervision. |
| **C** | **CVA – Credit Valuation Adjustment risk – 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 from revaluation to market value due to expected counter-party risk for over-the-counter (OTC) derivatives. This means loss due to impairment of fair value of derivatives, due to increase in counter-party credit risk (such as: lowered 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** | **High Quality Liquid Assets (HQLA)** – high-quality liquid assets which can be quickly and easily converted into cash, with a small loss of value or with no such loss under a stress scenario. |
| **I** | **ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. The process includes, *inter alia*, setting capital targets, capital planning processes and review of the status of capital under diverse stress scenarios. This process is part of Pillar 2 of the Basel II directive. |
| **L** | **LGD (Loss Given Default)** – Loss rate from credit should the customer go into default. |
| **M** | **Minimum capital ratio** – The ratio represents the minimum supervisory capital ratios which the Bank is required to maintain, pursuant to requirements set forth in Proper Conduct of Banking Business Directive 201. |
| **P** | **PD (Probability of Default)** – Probability (in percent) of a borrower going into default within a specified time. |
| **P** | **Pillar 2** – The second pillar of the Basel II document, referring to the supervisory review process. This part consists of the following underlying principles:<br>The Bank shall conduct an ICAAP process, as defined above. The banking supervision shall conduct a process to assess the bank's capital adequacy assessment process, to review the bank's capacity to monitor and comply with supervisory capital ratios. The bank is expected to operate above the minimum capital ratios specified. |
| | **Pillar 3** – The third pillar of the Basel II document, designed to promote market discipline by developing a set of disclosure requirements that would allow market participants to assess the capital, risk exposure and risk assessment processes, and accordingly – to assess the bank's capital adequacy. |
| **R** | **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 reported and presented to the Board of Directors quarterly. |
| **R** | **Risk assets** – Composed of credit risk, operating risk and market risk, calculated using the standard approach, as set forth in Proper Conduct of Banking Business Directives 201-211. |
| **S** | **Standard approach** – An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. The capital allocation is calculated by a formula based on supervisory assessment components, as specified by the Supervisor of Banks. |
| | **Supervisory capital (total capital)** – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I equity and additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Capital measurement and adequacy – Supervisory capital". |
| | **Stress tests** – Term covering multiple methods designed to assess the financial standing of a banking corporation under a stress scenario. |

## Terms with regard to banking and finance

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| **B** | **Bonds** – Securities which are issuer obligations to pay to bond holders the issued principal and interest upon set dates or upon fulfillment of certain conditions. |
| **D** | **Derivative instrument** – 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. |
| | Non-accruing debt – Debt reviewed on individual basis where it is expected that the banking corporation would not be able to collect all amounts due and principal and interest payments in conformity with contractual terms and conditions of the debt agreement. Debt reviewed on individual basis is categorized as non-accruing in any case where principal or interest is in arrears over 90 days straight, unless the debt is well secured and is in collection proceedings. Non-accruing debt also includes debt with modified terms and conditions due to re-structuring of problematic debt. |
| **R** | **Recorded debt balance** – The debt balance, including recognized accrued interest, un-amortized premium or discount, net deferred commissions or net deferred costs charged to the debt balance and not yet amortized, net of any debt amount subject to accounting write-off.<br>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

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| **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 measure of the Bank's capacity to meet its liquidity needs for the coming month. |

# Index