RISK MANAGEMENT REPORT 2 AS OF 30.06.2022

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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 periodic report and the financial statements in XBRL format, the actuarial assessment regarding employee rights at the Bank, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these financial statements, including XBRL format, the Bank's "solo" financial statements, this risk management report and additional supervisory information, as stated, 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.

Bank Mizrahi Tefahot

Risks Report for the second quarter of 2022

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

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

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

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

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Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof as of June 30, 2022. 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 August 15, 2022.

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 2021 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**	**Doron Klauzner**
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, August 15, 2022

Forward-looking information

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

Actual Bank results may materially differ from those included in the forward-looking information, due to many factors including, inter alia, due to 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 believe", "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 strength of borrowers, the public’s preferences, changes to legislation and supervisory regulations, the behavior of competitors, the Bank’s image, technological developments and human resources developments.

The information presented 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):

	2022		2021			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Key supervisory and financial ratios						
Available capital						
Tier I equity[1]	23,567	22,650	21,969	22,099	21,783	20,708
Tier I capital before effect of transitional provisions	23,277	22,355	21,935	22,045	21,709	20,607
Total capital	31,555	30,314	29,883	30,268	30,267	27,373
Total capital before effect of transitional provisions	31,287	30,097	29,402	29,767	29,746	26,825
Risk weighted assets						
Total risk weighted assets (RWA)	235,783	226,301	218,710	211,706	206,779	203,936
Capital adequacy ratio (in %)						
Tier I capital ratio(1)	10.00	10.01	10.04	10.44	10.53	10.15
Tier I capital ratio before effect of transitional provisions	9.85	9.86	10.03	10.41	10.50	10.10
Total capital ratio	13.38	13.40	13.66	14.30	14.64	13.42
Total capital ratio before effect of transitional provisions	13.25	13.28	13.44	14.06	14.38	13.15
Tier I capital ratio required by Supervisor of Banks[2]	9.62	9.61	8.60	8.60	8.63	8.66
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks[2]	0.38	0.40	1.44	1.84	1.90	1.49
Leverage ratio						
Total exposure	450,369	426,244	423,950	411,555	406,235	401,308
Leverage ratio (in %) [3]	5.23	5.31	5.18	5.37	5.36	5.16
Leverage ratio before effect of transitional provisions (in %)	5.17	5.24	5.17	5.36	5.34	5.13
Liquidity coverage ratio[4]						
Total high quality liquid assets	84,379	85,927	88,141	91,377	88,745	84,754
Total outgoing cash flows, net	70,430	71,724	70,541	72,679	66,992	63,729
Liquidity coverage ratio (in %)	120	120	125	126	132	133
Net stable funding ratio						
Total available stable funding[5]	274,230	258,878	259,631	-	-	-
Total required stable funding	240,140	223,862	218,447	-	-	-
Net stable funding ratio (in %)	114	116	119	-	-	-
Performance benchmarks						
Net profit return on equity[6][7]	19.4	[8]21.9	12.9	16.2	21.3	14.9
Net profit return on risk assets[6][7]	1.82	2.07	1.26	1.62	1.92	1.34
Deposits from the public to loans to the public, net	109.9	110.5	113.4	117.0	115.8	117.7
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.88	0.89	0.77	0.83	0.86	0.96
Balance of provision for credit losses, including estimated credit losses in balance of loans to the public at Union Bank, as percentage of loans to the public	0.91	0.94	0.85	0.91	0.95	1.07
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	1.20	1.13	0.98	1.06	1.07	1.23
Expenses with respect to credit losses to loans to the public, net for the period[7]	0.14	0.11	(0.02)	(0.06)	(0.38)	0.02
Of which: With respect to commercial loans other than residential mortgages	0.25	0.26	0.11	(0.11)	(0.80)	0.16
Of which: with respect to residential mortgages	0.08	0.03	(0.09)	(0.02)	(0.14)	(0.06)
Ratio of net accounting write-offs to average loans to the public[7]	0.06	0.03	0.09	0.03	0.04	0.06

	First half		All of
	2022	2021	2021
Performance benchmarks			
Net profit return on equity[6][7]	[8]20.6	17.0	15.8
Net profit return on risk assets[6][7]	1.95	1.63	1.53
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period[7]	0.12	(0.18)	(0.10)
Of which: With respect to commercial loans other than residential mortgages	0.25	(0.32)	(0.15)
Of which: with respect to residential mortgages	0.05	(0.10)	(0.08)
Ratio of net accounting write-offs to average loans to the public[7]	0.05	0.04	0.05

Financial ratios indicate as follows:

- Net profit return on equity in the first half of the year was 20.6%, due to increased volume of activity and loans to the public, higher Bank of Israel interest rate andhigher Consumer Price Index.
- The ratio of Tier I capital to risk components increased to 10.0%. The minimum ratio required of the Bank is 9.62%.

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, excluding residential mortgages extended during the interim directive due to the Corona Virus crisis. For more information about the interim directive for addressing the Corona Virus crisis, see chapter "Capital and leverage".
(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 most recent 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) Annualized. In conformity with Bank of Israel circular 2664-06, the calculation method for presenting return for interim periods has been revised. Comparative figures were revised accordingly. Net profit return on equity in 2021 using the old method was: For the first helf: 17.7%; For the first quarter: 14.9%; for the second quarter: 21.3%; for the third quarter: 17.3%; for the fourth quarter: 13.5%.
(8) Excluding effect of capital gain, net from sale of assets, net profit return on equity in the first half and in the first quarter of 2022 is 18.0% and 16.6%, and the cost-income ratio is 46.8% and 48.8%, respectively.
(9) As from the first quarter of 2022, due to application of new directives regarding provisions for credit losses and other directives, residential mortgages in arrears or under re-structuring, which according to the new directives do not accrue interest revenues on the financial statements, previously presented under "Accruing problematic credit risk – housing" are now presented under "Non-accruing credit". Moreover, "Accruing problematic loans to the public – housing" includes loans accruing interest, which are classified as problematic due to lack of qualitative indications.

Bank approach to risk management (OVA)

General information regarding management of various risks and the risk profile

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

Risk management at the 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, at the highest level, the overall risk level which the Bank 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's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives and on results of the various stress scenarios tested by the Bank.

Risk tolerance is a specific 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 is willing to assume.

System-wide scenario

In line with customary world-wide practice, the Supervisor annually conducts a uniform macro-economic stress scenario for the banking system, designed to test bank resilience and vulnerabilities in case of a stress event. In 2021, the Supervisor conducted a uniform macro-economic stress scenario. The stress scenario involved a global shock, reflected by slower economic activity and market declines in Israel and around the world. Interest rate increase due to higher inflation, along with a sharp decrease in asset prices, higher unemployment and lower private consumption. Moreover, in late 2022, a significant military operation starts in Israel, resulting in further deterioration in economic activity, which brings about a material lowering of Israel's credit rating (down to BBB), along with changes in the business environment and increased competition with new financial players.
The Supervisor of Banks' 2021 Overview included the outcome of the system-wide uniform stress scenario. The outcome indicates that the banking system is expected to maintain its resilience and stability, even under extreme market conditions as tested in the scenario. Banks maintained appropriate capital ratios throughout the scenario, with the Tier I shareholders' equity ratio remaining above 6.5% (the minimum equity required by the Supervisor under a stress scenario). Economic growth and higher inflation and interest rates result in higher net interest revenues in the banking system, due to excess linked assets over linked liabilities across the system. However, this increase is onerous on borrowers, including mortgage borrowers, resulting in higher credit losses.
The results of this scenario show the expected development of the Bank balance sheet, profitability and capital and leverage ratios across the scenario. The Bank's results also indicate resilience and stability while maintaining appropriate capital and leverage ratios.

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, which may materialize over the longer term, with uncertainty about their nature and impact on the Bank; These risks include information security and cyber risk and IT risk.

As noted, the risk mapping is regularly reviewed to ensure it covers all risks associated with the Bank's business activity, as well as those arising from market conditions and from regulatory requirements.

Material major and emerging risks:

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.

Increased competition and further digitization of the banking system, as well as changes to client behavior and to business model, that may result in material impact on the banking system over the medium to long range. Furthermore, regulatory changes may impact the Bank's business results. Impact of regulatory directives on core banking activities, including potential impact of the Increased Competition and Reduced Concentration in the Banking Market in Israel Law. The Law is designed to increase competition for retail banking services with regard to the supply side – by adding new players, and the demand side – by enhancing consumers' ability to compare the costs of financial services.

Technological developments in the world of finance and changes to consumer preferences result in ever-growing transition to digital banking activities. The evolution of open banking may result in increased price competition, primarily for payments and money transfers. In view of these developments, there is growing risk of diffused consumption of banking products and increased competitive threat to the banking system, due to entry of non-banking financial entities and technology companies into areas of banking activity. The Bank is preparing for this changing technological world by adapting the banking production function through, inter alia, investments in technology.

On April 26, 2021, the Bank’s Board of Directors approved a new five-year strategic plan for 2021-2025 based, *inter alia*, on positioning the Bank as a key player in business banking, 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 client choice and needs, as well as offering personalized value propositions across all channels, which are customized for client 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).

Business-strategic risk may also be affected by changes to the macro-economic environment – The state of the global and local 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 and in the economic and geo-political situation of Israel and of the region may potentially impact Bank operations.

In the current quarter, the effects of the Corona Virus pandemic on global and local economic activity diminished. There is still uncertainty with regard to future outbreaks of the virus, its future attributes and potential future impact on business and economic activity. The Bank continues to monitor these effects. However, the continued Russia-Ukraine war and macro-economic changes in Israel and world-wide increase uncertainty in the market. The Bank of Israel raised its interest rate in July to 1.25%. Ths US Federal Reserve raised its interest rate at the end of July by a further 0.75% to 2.25%-2.5%. Inflation in Israel and world-wide continues to be high, primarily due to higher energy and commodity prices around the world.

These changes may also affect Bank operations. Continued higher interest rates and inflation is expected to increase borrowing costs and to affect credit risk management at the Bank. The Bank regularly monitors the potential effects on its business operations.

Cyber and information security risk – cyber threats towards 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 world-wide. Moreover, technology and digital developments to the banking system increase the threat surfaces. The Bank's information security team operates fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face and in order to reduce the capacity to conduct un-authorized transactions in client accounts. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat.

Technological risk – Technological risk is a significant risk to the banking system. The risk is affected by more rapid technological and digital development, in response to changing customer needs. The legacy core systems at banks, 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 second quarter of 2022, 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.

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 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 fairness issues and 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 Russia-Ukraine war, the Bank monitors 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 – This is risk due to potential harmful impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other, derived risks: reputation risk, third-party liability risk and so forth. Environmental risks include: air, water and land pollution, impact to biological diversity and deforestation. Climate risk is risk due to increased frequency and intensity of weather events due to global warming. Climate risks include transition risks, arising from moves designed to reduce warming, including reduction of carbon emissions (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risks which materialize as direct consequence of climate change, such as: fire, flooding and so forth. The Bank sees great importance in promoting activity and risk management in this regard, and is preparing to expand its activity, to monitor and manage environmental risks, including climate risks, in conformity with expectations of the Supervisor of Banks and emerging global practice in this field.

For more information about management of these risks, see chapter "Environment, society and governance" in the 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 Board of Directors. The assumptions may fail to materialize due to factors not entirely 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 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 conditions, based on the severity levels set forth in the framework policy on risk management. 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 other with a more significant 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 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	
Overall effect of market risks(2)	Low-Medium	Manager, Finance Division
Interest risk	Low-Medium	
Inflation risk	Low-Medium	
Foreign currency risk	Low	
Liquidity risk	Low-Medium	Manager, Finance 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 clients sector.
(2) Includes options and shares risk mapped at Union Bank.
(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 second quarter of 2022 there was no change to risk assessment and to risk profile of the Bank.
In the current quarter, the overall effect of credit risk and risk associated with quality of borrowers and collateral remained Medium.

The effects of the Corona Virus pandemic on global and local economic activity diminished. There is still uncertainty with regard to future outbreaks of the virus, its future attributes and potential future impact on business and economic activity. The Bank continues to monitor these effects. However, the continued Russia-Ukraine war and macro-economic changes in Israel and world-wide increase uncertainty in the market. Interest rates continue to rise. Moreover, inflation in Israel and world-wide continues to be high, primarily due to higher energy and commodity prices around the world. These changes may affect Bank operations, increase borrowing costs and affect credit risk management. Due to uncertainty with regard to developments in the macro-economic environment and their impact on the Bank, credit risk remains at Medium. The Bank regularly analyzes and monitors the potential impact of such changes on Bank operations.

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.

In the second quarter of 2022, the Bank continued to expand its lending operations in the construction and real estate sector, with continued growth of these operations achieved while adhering to appropriate underwriting procedures and credit spreads to reflect the risk and is regularly monitored. 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 14.4% (compared to 14.7% at end of 2021 and to 14.1% at end of 2020).

On May 15, 2022, the Supervisor of Banks issued a draft update to Proper Conduct of Banking Business Directive 203, whereby loans designated for purchase of land for development or construction, with an LTV higher than 80% of value of the acquired property, shall carry a risk weighting of 150%, instead of 100%. The full capital allocation may be conducted in the third quarter of 2022, or may be apportioned as from the third quarter of 2022, over four quarters, so as to have the capital requirement be fully reflected on June 30, 2023. The Bank is preparing to implement the directive.

The risk level in the residential mortgages portfolio remained low. The Bank regularly monitors the risk in this portfolio, and has tested stress scenarios to review the potential impact to the Bank under a scenario assuming higher interest rates and higher inflation. The results of this scenario indicate a low risk level in the residential mortgages portfolio.

Market risk and interest risk remained Low-medium, despits further increase in interest rates and in the capitalization curves, which resulted in somewhat higher risk. The Bank monitors the potential impact on Bank operations.

Technology risk and cyber and information security risk are material risks for the Bank, and the potential damage due to materialization of such risk may be significant under normal circumstances, and even more so during emergencies. 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 and to cyber and information security. Note, however, that computer systems at Bank Yahav were unavailable on June 30, 2022 through 10:30am, due to maintenance work which lasted longer than planned. No unusual events occurred due to this unavailability and bank customers received full service.

In the second quarter of 2022, liquidity risk remained Low-medium. In the quarter, the alert level at the Bank was raised to Yellow, due to the continued war between Russia and the Ukraine and due to market volatility and further interest rate hikes. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. In the second quarter of 2022, 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 second quarter of 2022 was 120%. Net stable funding ratio (on consolidated basis) as of June 30, 2022 was 114%. No deviations from the risk appetite limitations were recorded.

In May 2022, the Supervisor of Banks granted Union Bank a waiver for application of Proper Conduct of Banking Business Directive 342 "Liquidity risk management" and Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio" and transfer of liquidity management, in effect, to the Bank Mizrahi Tefahot. As from June 1, 2022, Bank Mizrahi Tefahot manages liquidity risk for Union Bank, with liquidity ratios at Bank Mizrahi Tefahot measured on solo basis from a consolidated viewpoint, i.e. jointly with Union Bank data. Controls over calculation of these ratios are applied by the second line at Bank Mizrahi Tefahot. The liquidity desk at Union Bank continues to operate and manage regulatory mandatory liquidity and business liquidity at Union Bank, while adhering to internal liquidity limits set by the Bank.

In the second quarter of 2022, reputational risk remained Low. The Bank continues to regularly monitor the impact of the Union Bank merger. To date there was no material impact on the Bank's reputational risk.

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).

Strategic plan

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

Union Bank merger

On September 30, 2020, the proposed exchange tender for Union Bank shares was concluded. The merger transaction is a material, large-scale and highly complex process which entails a wide range of risks. The merger process was launched in the fourth quarter of 2020 and is carried out by several extensive joint work teams of Bank Mizrahi Tefahot and Union Bank, managed by a steering committee headed by the Bank President & CEO, with administrations established to carry out the merger plan and a designated Board committee established to supervise this process. Risk management is an integral and dynamic part of all work teams, and the Group's Chief Risks Officer reviews and integrates all risks of the merger process and the measures applied to reduce and manage such risk. The Bank's Risk Control Division and Internal Audit regularly accompany the merger process and conduct control and lesson learning processes.

Accompanying the merger process includes current management of the risk map, applying comprehensive second-line operating controls and regular quarterly review of the status of all comprehensive controls applied by the various lines of defense at Bank Mizrahi Tefahot and at Union Bank. Risks Control also conducts a comprehensive process of lesson learning upon completing each conversion round; the conclusions from this process are brought for discussion by Bank management, by the Union Bank Merger Board committee.

As part of preparations for the merger, both banks are acting, as from the second quarter of 2021, to convert clients from Union Bank to the Bank, and to transfer various activities of Union Bank to the Bank. Due to the merger, most of the branches have been closed.

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

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

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

For more information about retirement program for Union Bank employees, see chapter "Significant developments in human resources and administration" below.

For more information about the agreement signed by Igud Systems Ltd. and Mizrahi-Tefahot Technology Division Ltd. and the Employee Union of Union Bank Systems Ltd., which governs onboarding of Igud employees, see chapter "Significant developments in human resources and administration" below.

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 Board of Directors. The assumptions may fail to materialize due to factors not entirely under the Bank's control.

Macro-economic changes, including effect of the Corona Virus outbreak

In the second quarter, the Bank continued to address the Corona Virus and maintained work instructions derived from guidance issued by the Ministry of Health and by the Bank of Israel, including the following: Maintaining hygiene and social distancing, barriers at public service counters and continued remote work as needed based on a rapid, structured process.

The Bank is in a state of high readiness for business continuity in case of emergency. In the second quarter of 2022, the Bank maintained business continuity under a routine state of alert. The state of alert was raised to Increased in the first quarter of 2022 as the Omicron variant outbreak proliferated. In April, as morbidity rates decreased and with reduced restrictions pursuant to Ministry of Health policy, the Bank lowered its state of alert to "Routine". However, the Bank continues to follow and monitor the state of morbidity at the Bank and maintains all emergency systems on alert in case of a renewed outbreak.

Further to the economic recovery from the Corona Virus crisis, the decrease in loans subject to repayment delays pursuant to the Corona Virus crisis outline continues, and currently remaining delays, as of June 30, 2022, are small and do not indicate any material risk.

As of June 30, 2022, the balance of loans provided by the Bank from State-guaranteed funds amounted to NIS 4.1 billion. Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of June 30, 2022 amounted to NIS 4.9 billion, mostly for 3 years bearing fixed interest at 0.1%.

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

Update to Proper Conduct of Banking Business Directive 451 regarding "Procedures for extending residential mortgages"

On January 31, 2022, the Bank of Israel issued an update regarding procedures for extending residential mortgages (update to Proper Conduct of Banking Business Directive 451), designed to enhance transparency and to aid clients in making informed decisions in the process of obtaining a mortgage. The update to the Directive refers to multiple aspects, including: Simplicity to enhance client understanding, transparency and uniformity of information for the client, to enable comparison of offers from multiple banks, online tools to be used by the client and shorter time frame for providing approval in principle.

The Directive specifies 3 uniform baskets which banking corporations are required to offer to clients in the approval in principle, and the bank is allowed to offer one or more tracks without restrictions imposed by the Bank of Israel. based on the bank's discretion as to the mix appropriate for the client. The amendments to the directive also include an instruction to banking corporations to provide to the public an online calculator which allows for simulation of various loan mixes over various time frames, including the uniform tracks stipulated in the directive, so as to obtain an estimate of the impact of changes to the loan mix on the monthly payment and total amount payable throughout the loan term. Calculated loan repayments would include estimated effect of inflation and interest rate updates under the variable interest tracks, in conformity with forecasts based on the capital market with regard to future developments of these parameters.

The effective start date of amendments to this directive is August 31, 2022 and the Bank is preparing for implementation of this directive in various business and operating aspects.

Adoption of US GAAP with regard to provisions for expected credit losses (CECL)

As from January 1, 2022 the Bank applies the new directive. For more information see Note 1 to the financial statements (Reporting rules and accounting policy).

Russia – Ukraine crisis

In February 2022, the Russia-Ukraine war started. This continued war brought about market volatility and higher energy and commodity prices world-wide. There is uncertainty with regard to further development of the war and its implications for markets and for economic activity, including those of Bank clients. Bank management monitors the developments and would take action as required. The Bank monitors the sanction list (including sector-specific sanctions) published with regard to this conflict by the USA, EU and the UK and applies these as part of the Bank's risk management policy.

Overview of weighted risk assets (OV1)

	Risk weighted assets		Minimum capital requirements[1]
	As of June 30, 2022	As of March 31, 2022	As of June 30, 2022
Credit risk (standard approach)[2]	211,684	203,583	26,461
Counter-party credit risk (standard approach)	2,117	1,065	265
Credit risk value adjustment (CVA)[3]	1,071	616	134
Amounts lower than discount threshold (subject to 250% risk weighting)	4,577	4,447	572
Total credit risk	**219,449**	**209,711**	**27,432**
Market risk (standard approach)	1,843	2,446	230
Operational Risk[4]	14,491	14,144	1,811
Total	**235,783**	**226,301**	**29,473**

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

Capital and leverage

Composition of supervisory capital

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

	June 30, 2022	June 30, 2021	December 31, 2021
			NIS in millions
Tier I equity before regulatory adjustments and deductions	22,714	20,951	21,250
Total supervisory adjustments and Tier I deductions	[1](853)	[1](832)	[1](719)
Tier I shareholders' equity	23,567	21,783	21,969
Tier II capital	7,988	8,484	7,914
Total capital	31,555	30,267	29,883
Total risk weighted assets	235,783	206,779	218,710
Ratio of Tier I equity to risk components	10.00%	10.53%	10.04%
Ratio of total capital to risk components	13.38%	14.64%	13.66%
Minimum Tier I equity ratio required by Supervisor of Banks	9.62%	8.63%	8.60%
Minimum capital ratio required by the Supervisor of Banks	12.50%	12.50%	12.50%

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see section F. below.

According to the Bank's dividend policy, the Bank's capital ratios meet the conditions specified for dividend distribution as of June 30, 2022. On May 15, 2022, the Supervisor of Banks issued a draft update to Proper Conduct of Banking Business Directive 203, whereby loans designated for purchase of land for development or construction, with an LTV higher than 80% of value of the acquired property, shall carry a risk weighting of 150%, instead of 100%.

Composition of supervisory capital

		As of June 30		As of December 31
		2022	**2021**	**2021**
				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	3,580	3,533	3,573
2	Retained earnings, including dividends proposed or announced after the balance sheet date	19,080	17,212	17,500
3	Cumulative other comprehensive income and retained earnings disclosed	(473)	(227)	(270)
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	527	433	447
6	**Tier I equity before regulatory adjustments and deductions**	22,714	20,951	21,250
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	70	90	80
10	Deferred tax assets to be realized based on future profitability of the banking corporation, excluding deferred tax assets due to temporary differences	-	-	6
11	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	(7)	(10)	(12)
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	1	4	5
16	Self investment in ordinary shares, held directly or indirectly (including commitment to purchase shares subject to contractual agreements)	-	-	-
21	Deferred tax assets arising from temporary differences, whose amount exceeds 10% of Tier I equity	-	-	-
25	Of which: Deferred tax assets created due to temporary differences	-	-	-
26	Supervisory adjustments and other deductions stipulated by the Supervisor of Banks	(1,004)	(1,003)	(885)
26.C	Of which: Additional regulatory adjustments to Tier I equity, not included in sections 25.A. and 25.B.	-	-	-
28	**Total supervisory adjustments and Tier I deductions**	(853)	(832)	(719)
29	**Tier I shareholders' equity**	23,567	21,783	21,969
44	**Additional Tier I capital**	-	-	-
45	**Tier I capital**	23,567	21,783	21,969
Tier II capital: Instruments and provisions				
46	Instruments issued by the banking corporation (not included in Tier I capital) and premium for such instruments	2,205	2,195	2,006
47	Tier II capital instruments issued by the corporation qualifying for inclusion in supervisory capital during the transition period	-	447	447
48	Tier II capital instruments issued by subsidiaries of the banking corporation to third-party investors	3,598	3,760	3,480
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	2,185	2,082	1,981
51	**Tier II capital before deductions**	7,988	8,484	7,914

		As of June 30		As of December 31
		2022	**2021**	**2021**
				NIS in millions
Tier II capital: Deductions				
57	**Total deductions from Tier II capital**	-	-	-
58	**Tier II capital**	7,988	8,484	7,914
59	**Total capital**	31,555	30,267	29,883
60	**Total risk weighted assets**	235,783	206,779	218,710
Capital ratios and capital preservation cushions				
61	Tier I shareholders' equity	10.00%	10.53%	10.04%
62	Tier I capital	10.00%	10.53%	10.04%
63	Total capital	13.38%	14.64%	13.66%
Minimum requirements stipulated by the Supervisor of Banks				
69	Minimum Tier I equity ratio required by Supervisor of Banks	9.62%	8.63%	8.60%
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	132	85	100
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	4	4	3
75	Deferred tax assets created due to temporary differences, which is below the amortization threshold	1,827	1,665	1,759
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	1,371	2,082	1,981
77	Cap for inclusion of provision in Tier II with regard to exposures under the standard approach	2,743	2,385	2,533
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	1,195	1,195
85	Amount deducted from Tier II capital due to cap	36	2,310	2,334

(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 June 30, 2022, 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.

Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. Risks management and control processes at the Bank and at the Group are designed to identify, manage, monitor, quantify, avoid and mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. Bank and Group business activity in diverse on- and off-balance sheet products and financial instruments is exposed to various financial and non-financial risks, whose materialization has potential to impact the Bank's financial results or image. The key financial risks managed by the Bank are: Credit risk, including concentration risk, liquidity risk and market and interest risk and so forth. Along with financial risks, Bank operations are also involved with non-financial risks, such as: compliance and regulatory risk, operational Risk (including IT risk, information and cyber security risk, legal risk, reputational risk and other risks, such as: environmental risk, business model rsk and sector competition.

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%. Furthermore, pursuant to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages", banking corporations are required to increase their Tier I capital target by 1% of the outstanding residential mortgage balance as of the report date.

Circular concerning Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)"

Due to the Corona Virus outbreak and as part of adaptations of Proper Conduct of Banking Business Directives, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 250 which includes, inter alia, an interim directive with regard to update to Directive 201, including reduction of minimum capital requirements applicable to banks by one percentage point, and update to Directive 329, eliminating the capital requirements of one additional percentage point for residential mortgages for purchase of a residential apartment extended from March 19, 2020 through September 30, 2021 and for general purpose residential mortgages extended as from March 19, 2020.

Over the crisis period, the Supervisor of Banks issued updates extending validity of the interim directive, and on December 27, 2021, the Supervisor of Banks issued a circular whereby the interim directive expired as from January 1, 2022. Furthermore, an update was made to Proper Conduct of Banking Business Directive 329 regarding "Restrictions on residential mortgages" whereby the additional capital requirement at 1 percentage point would only apply to residential

mortgages and would not apply to residential mortgages other than for purchasing interest in real estate and by mortgage on an apartment (hereinafter: "General-purpose loan").

Consequently, the Bank's minimum ratio of Tier I equity to risk assets, including the additional capital requirement of 1% of the balance of residential mortgages, as of June 30, 2022, would be at least 9.62%, and the total capital ratio would be at least 12.50%

Circular revising the directive with regard to the standard approach for calculation of counter-party credit risk exposure (SA-CCR)

In March 2014, the Basel Committee on Bank Supervision issued updates to the Basel III directives, including a new directive with regard to "Standard approach for calculation of counter-party credit risk exposure (SA-CCR)".

On December 1, 2021, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directives which include guidelines for handling of counter-party credit risk in conformity with SA-CCR; according to this circular, the directive applies as from July 1, 2022.

The standard approach to calculation of counter-party credit risk exposure replaces the current approaches in Directive 203 for calculation of counter-party exposure in case of default. Application of this directive should result in a non-material increase in risk assets.

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.

The Bank's leverage ratio as of March 31, 2022 is 5.31%, compared to 5.18% as of December 31, 2021.

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 with regard to extension of the relief measures regarding leverage ratios. With regard to reduced leverage requirements to 4.5%, this relief measure shall remain in effect 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.

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 June 30, 2022	As of June 30, 2021	As of December 31, 2021
Total assets according to consolidated financial statements	416,969	374,370	392,271
Adjustments with respect to financial derivatives	401	1,413	333
Adjustments with respect to off-balance sheet items(1)	30,611	28,744	29,729
Other adjustments	2,388	1,708	1,617
Exposure for leverage ratio	**450,369**	**406,235**	**423,950**

(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 June 30, 2022	As of June 30, 2021	As of December 31, 2021
Composition of exposures and leverage ratio (NIS in millions)			
On-balance sheet exposures			
Assets on balance sheet	408,117	372,121	387,501
Amounts with respect to assets deducted to determine Tier I capital	(157)	(177)	(173)
Total on-balance sheet exposures	**407,960**	**371,944**	**387,328**
Exposures with respect to derivatives			
Subrogation cost for all transactions with respect to derivatives	6,575	2,500	3,808
Additional amounts with respect to future potential exposure for all transactions with respect to derivatives	2,711	2,017	1,542
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	(2,163)	(1,030)	(1,638)
Exempt central counter-party leg of commercial exposures disposed by the client	-	-	-
Adjusted effective par amount of credit derivatives written	280	261	249
Adjusted effective par offsets and deduction of additions with respect to credit derivatives written	-	-	-
Total exposure with respect to derivatives	**7,403**	**3,748**	**3,961**
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	4,395	1,799	2,932
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	**4,395**	**1,799**	**2,932**
Other off-balance sheet exposures			
Off-balance sheet exposure in par value, gross	107,584	102,583	105,760
Adjustments with respect to conversion to credit equivalent amounts	(76,973)	(73,839)	(76,031)
Off-balance sheet items	30,611	28,744	29,729
Capital and total exposure			
Tier I capital	23,567	21,783	21,969
Total exposure	450,369	406,235	423,950
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.23%	5.36%	5.18%
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 client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also 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 2021 Risks Report, available on the Bank website.

Credit quality of credit exposures (CR1)

				June 30, 2022
	Gross balances[(1)]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	3,613	374,352	2,638	375,327
Bonds	-	19,444	-	19,444
Off-balance sheet exposures[(2)]	6	107,359	216	107,149
Total	**3,619**	**501,155**	**2,854**	**501,920**

				June 30, 2021
	Gross balances[(1)]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	2,744	344,714	2,208	345,250
Bonds	-	15,426	-	15,426
Off-balance sheet exposures[(2)]	90	101,771	211	101,650
Total	**2,834**	**461,911**	**2,419**	**462,326**

				December 31, 2021
	Gross balances[(1)]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	2,667	362,598	2,104	363,161
Bonds	-	13,755	-	13,755
Off-balance sheet exposures[(2)]	81	104,387	211	104,257
Total	**2,748**	**480,740**	**2,315**	**481,173**

(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)

Details of the provision for credit losses with respect to residential mortgages for which a minimum provision for credit losses was made by extent of arrears

Credit risk mitigation methods (CR3)

	As of June 30, 2022								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	336,455	41,264	18,973	34,025	11,178	7,239	7,795	-	-
Bonds	19,444	-	-	-	-	-	-	-	-
Total	**355,899**	**41,264**	**18,973**	**34,025**	**11,178**	**7,239**	**7,795**	**-**	**-**
Of which: Impaired or in arrears 90 days or longer	2,889	448	193	40	30	409	163	-	-

	As of June 30, 2021								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	309,045	36,172	10,185	28,003	8,151	8,169	2,034	-	-
Bonds	15,426	-	-	-	-	-	-	-	-
Total	**324,471**	**36,172**	**10,185**	**28,003**	**8,151**	**8,169**	**2,034**	**-**	**-**
Of which: Impaired or in arrears 90 days or longer	1,996	427	125	138	38	289	86	-	-

	As of December 31, 2021								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	329,532	35,420	10,157	27,452	8,281	7,968	1,876	-	-
Bonds	13,755	-	-	-	-	-	-	-	-
Total	**343,287**	**35,420**	**10,157**	**27,452**	**8,281**	**7,968**	**1,876**	**-**	**-**
Of which: Impaired or in arrears 90 days or longer	2,034	346	154	19	15	327	138	-	-

(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 June 30, 2022
Sovereigns, central banks thereof and national monetary authority	95,227	106	-	3	-	-	15	-	-	95,351
Public sector entities (PSE) other than central Government	163	2,307	-	42	-	-	3	-	-	2,515
Banks (including multilateral development banks)	-	5,456	-	852	-	-	177	-	-	6,485
Securities companies	-	842	-	-	-	-	-	-	-	842
Corporations	-	12,926	-	342	-	-	62,999	2,804	-	79,071
Retail exposures to individuals	-	-	-	-	-	26,565	-	-	-	26,565
Loans to small businesses	-	-	-	-	-	12,938	2	-	-	12,940
Secured by residential property	-	-	59,882	45,810	48,717	26,678	1,836	-	-	182,923
Secured by commercial property	-	-	-	-	-	-	5,590	-	-	5,590
Loans in arrears	-	-	-	-	-	-	1,761	1,941	-	3,702
Other assets	2,373	-	-	-	-	-	3,858	399	4	6,634
Of which: with respect to shares	-	-	-	-	-	-	515	194	-	709
Total	**97,763**	**21,637**	**59,882**	**47,049**	**48,717**	**66,181**	**76,241**	**5,144**	**4**	**422,618**
										As of June 30, 2021
Sovereigns, central banks thereof and national monetary authority	105,924	85	-	-	-	-	102	-	-	106,111
Public sector entities (PSE) other than central Government	251	1,766	-	9	-	-	1	-	-	2,027
Banks (including multilateral development banks)	-	3,248	-	656	-	-	174	-	-	4,078
Securities companies	-	702	-	-	-	-	-	-	-	702
Corporations	-	5,096	-	430	-	-	54,107	-	-	59,633
Retail exposures to individuals	-	-	-	-	-	24,592	6	-	-	24,598
Loans to small businesses	-	-	-	-	-	12,343	2	-	-	12,345
Secured by residential property	-	-	55,810	39,785	31,172	35,887	1,224	-	-	163,878
Secured by commercial property	-	-	-	-	-	-	6,502	-	-	6,502
Loans in arrears	-	-	-	-	-	-	1,392	1,264	-	2,656
Other assets	2,030	-	-	-	-	-	3,527	230	4	5,791
Of which: with respect to shares	-	-	-	-	-	-	495	182	-	677
Total	**108,205**	**10,897**	**55,810**	**40,880**	**31,172**	**72,822**	**67,037**	**1,494**	**4**	**388,321**
										As of December 31, 2021
Sovereigns, central banks thereof and national monetary authority	105,765	82	-	-	-	-	82	-	-	105,929
Public sector entities (PSE) other than central Government	168	2,756	-	6	-	-	2	-	-	2,932
Banks (including multilateral development banks)	-	4,262	-	614	-	-	159	-	-	5,035
Securities companies	-	763	-	-	-	-	-	-	-	763
Corporations	-	6,426	-	420	-	-	58,855	-	-	65,701
Retail exposures to individuals	-	-	-	-	-	25,474	-	-	-	25,474
Loans to small businesses	-	-	-	-	-	12,584	5	-	-	12,589
Secured by residential property	-	-	57,437	42,318	39,247	34,787	1,515	-	-	175,304
Secured by commercial property	-	-	-	-	-	-	6,022	-	-	6,022
Loans in arrears	-	-	-	-	-	-	1,120	1,290	-	2,410
Other assets	2,314	-	-	-	-	-	3,492	312	4	6,122
Of which: with respect to shares	-	-	-	-	-	-	492	194	-	686
Total	**108,247**	**14,289**	**57,437**	**43,358**	**39,247**	**72,845**	**71,252**	**1,602**	**4**	**408,281**

(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 June 30, 2022			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	4,057	2,431	5,002	1,678
Comprehensive approach to credit risk mitigation (for securities financing transactions)	-	-	841	252
Total	**4,057**	**2,431**	**5,843**	**1,930**

	As of June 30, 2021			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,079	1,867	2,032	1,262
Comprehensive approach to credit risk mitigation (for securities financing transactions)	-	-	129	129
Total	**1,079**	**1,867**	**2,161**	**1,391**

	As of December 31, 2021			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	2,097	1,677	2,271	928
Comprehensive approach to credit risk mitigation (for securities financing transactions)	-	-	157	136
Total	**2,097**	**1,677**	**2,428**	**1,064**

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

	As of June 30, 2022		As of June 30, 2021		As of December 31, 2021	
	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	4,760	1,071	1,659	406	1,931	529

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 2021 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:		
	June 30, 2022	**June 30, 2021**	**December 31, 2021**
Direct products			
Interest rate risk (general and specific)	1,546	2,185	2,037
Position risk in shares (general and specific)	44	34	40
Foreign currency risk	231	451	178
Commodities risk	-	-	-
Options	-	-	-
Delta Plus approach	22	11	13
Securitization	-	-	-
Total	**1,843**	**2,681**	**2,268**

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 2021 Risks Report, available on the Bank website.

Liquidity coverage ratio (LIQ1)

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

	For the three months ended June 30, 2022	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**84,379**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	160,837	10,821
Stable deposits	44,337	2,217
Less stable deposits	64,786	7,052
Deposits for term longer than 30 days	51,713	1,551
Non-secured wholesale financing, of which:	99,126	63,885
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	4,200	1,050
Deposits other than for operational needs (all counter parties)	93,753	61,662
Non-secured debts	1,173	1,173
Secured wholesale financing	-	297
Other liquidity requirements, of which:	147,246	55,748
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	47,500	47,500
Credit lines and liquidity	60,272	4,945
Other contractual financing obligations	-	-
Other contingent financing obligations	39,474	3,303
Total outgoing cash flows	-	**130,750**
Incoming cash flows		
Secured loans	2,566	399
Incoming cash flows from exposures repaid regularly	17,743	12,843
Other incoming cash flows	49,633	47,078
Total incoming cash flows	**69,942**	**60,319**
		Total adjusted value[4]
Total high quality liquid assets (HQLA)		**84,379**
Total outgoing cash flows, net		**70,431**
Liquidity coverage ratio (%)		**120**

(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 second 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):

	For the three months ended June 30, 2021	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**88,745**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	152,359	9,946
Stable deposits	43,503	2,175
Less stable deposits	58,150	6,250
Deposits for term longer than 30 days	50,707	1,521
Non-secured wholesale financing, of which:	90,413	58,043
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,079	770
Deposits other than for operational needs (all counter parties)	87,099	57,037
Non-secured debts	236	236
Secured wholesale financing		673
Other liquidity requirements, of which:	114,202	25,167
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	17,186	17,186
Credit lines and liquidity	59,395	4,944
Other contractual financing obligations	514	514
Other contingent financing obligations	37,108	2,524
Total outgoing cash flows		**93,829**
Incoming cash flows		
Secured loans	1,802	735
Incoming cash flows from exposures repaid regularly	12,828	9,924
Other incoming cash flows	20,895	16,178
Total incoming cash flows	**35,525**	**26,837**
		Total adjusted value[4]
Total high quality liquid assets (HQLA)		**88,745**
Total outgoing cash flows, net		**66,992**
Liquidity coverage ratio (%)		**132**

(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 second quarter of 2021 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, 2021	
	Total unweighted value[2] (Average)	Total weighted value[3] (Average)
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**88,141**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	153,821	10,159
Stable deposits	43,357	2,168
Less stable deposits	60,520	6,493
Deposits for term longer than 30 days	49,944	1,498
Non-secured wholesale financing, of which:	94,073	60,532
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,657	914
Deposits other than for operational needs (all counter parties)	89,646	58,848
Non-secured debts	769	769
Secured wholesale financing	-	210
Other liquidity requirements, of which:	116,545	27,593
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	18,791	18,791
Credit lines and liquidity	61,900	5,707
Other contractual financing obligations	669	669
Other contingent financing obligations	35,185	2,426
Total outgoing cash flows		**98,494**
Incoming cash flows		
Secured loans	1,544	294
Incoming cash flows from exposures repaid regularly	13,603	10,174
Other incoming cash flows	23,156	17,485
Total incoming cash flows	**38,303**	**27,953**
		Total adjusted value[4]
Total high quality liquid assets (HQLA)		**88,141**
Total outgoing cash flows, net		**70,541**
Liquidity coverage ratio (%)		**125**

(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 2021 is 79.
(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 across days of the month, due to current activity of clients and exchanges between NIS and foreign currency, primarily due to activity in NIS / 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):

	June 30		Average for the second quarter	
	2022	**2021**	**2022**	**2021**
Level 1 assets	81,267	90,792	84,349	88,633
Level 2a assets	30	112	30	112
Level 2b assets	-	-	-	-
Total HQLA	**81,297**	**90,904**	**84,379**	**88,745**

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 June 30, 2022		
	Total balance on balance sheet	Of which: Pledged	Of which: Non-pledged
Cash and deposits with central banks	76,993	6,792	70,201
Bonds of the Government of Israel	11,774	615	11,159
Bonds of others in Israel	1,788	-	1,788
Bonds of overseas governments	7,574	319	7,255
Bonds of others overseas	536	-	536
Loans to the public, net	298,233	4,604	293,629
Total	396,898	12,330	384,568

	As of June 30, 2021		
	Total balance on balance sheet	Of which: Pledged	Of which: Non-pledged
Cash and deposits with central banks	92,827	2,457	90,370
Bonds of the Government of Israel	14,239	836	13,403
Bonds of others in Israel	1,252	-	1,252
Bonds of overseas governments	884	223	661
Bonds of others overseas	524	20	504
Loans to the public, net	254,252	4,124	250,128
Total	363,978	7,660	356,318

	As of December 31, 2021		
	Total balance on balance sheet	Of which: Pledged	Of which: Non-pledged
Cash and deposits with central banks	93,689	1,244	92,445
Bonds of the Government of Israel	10,421	872	9,549
Bonds of others in Israel	1,372	-	1,372
Bonds of overseas governments	2,035	256	1,779
Bonds of others overseas	479	19	460
Loans to the public, net	271,428	6,606	264,822
Total	379,424	8,997	370,427

(1) Reclassified.

Developments in liquidity coverage ratio

In the second quarter of 2022, 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 second quarter of 2022 was 120%, similar to the ratio for the three months ended December 31, 2021. In this quarter, there were no recorded deviations from ratio restrictions.

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 June 30, 2022:

	A	B	C	D	E
	Non-weighted value by term to maturity				Weighted value
Available stable funding items (ASF)	No maturity(1)	Up to 6 months	6-12 months	12 months or longer	
Capital:	26,168	52	126	5,201	31,547
Supervisory capital	26,168	-	-	1,381	27,549
Other capital instruments	-	52	126	3,820	3,998
Retail deposits from individuals and from small businesses	-	135,755	10,487	6,783	140,812
Stable deposits	-	46,496	1,714	1,188	46,987
Less stable deposits	-	89,259	8,774	5,595	93,825
Wholesale financing	-	151,294	17,328	54,307	98,753
Deposits for operational needs	-	4,642	-	-	2,321
Other wholesale financing	-	146,652	17,328	54,307	96,432
Liabilities with matching assets which are inter-dependent	-	2,957	-	-	-
Other liabilities:	165	12,207	3,907	1,843	3,119
Liabilities with respect to derivative instruments for net stable funding ratio	-		5,544		-
All other liabilities and capital not included in the above categories	165	6,663	3,907	1,843	3,119
Total available stable funding items (ASF)					274,230
Required stable funding items (RSF)					
Total high-quality liquid assets by net stable funding ratio (HQLA)					942
Deposits held at other financial institutions for operational purposes	-	-	-	-	-
Loans and securities in good standing:	-	79,497	24,614	214,514	221,696
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	-	11,113	9,332	14,899	21,232
Loans to wholesale clients, other than financial institutions, which are in good standing, loans to retail clients and to small businesses and loans to sovereigns, to central banks and to public sector entities	-	57,379	6,160	28,354	55,307
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203	-	9	3	83	60
Residential mortgages secured by mortgage in good standing, of which:	-	10,987	7,780	171,240	144,459
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203	-	3,649	3,020	52,394	37,390
Securities not in default which do not qualify as high-quality liquid assets, including shares traded on the stock exchange	-	18	1,342	21	698
Assets with corresponding liabilities which are inter-dependent	-	2,957	-	-	-
Other assets:	1,954	4,065	1,500	11,516	12,784
Physically traded commodities, including gold	-	-	-	-	-
Assets deposited as primary collateral for derivative contracts and provided to default funds of central counter parties (CCPs)	-		1,125		1,125
Assets with respect to derivative instruments for net stable funding ratio	-		6,282		37
Liabilities with respect to derivative instruments for net stable funding ratio, before deduction of variable collateral deposited			10		10
All other asset categories not included in the above categories	1,954	2,939	1,500	5,219	11,613
Off-balance sheet items			106,571		4,718
Total required stable funding (RSF)					240,140
Net stable funding ratio (%)					114%

(1) Items reported under "No maturity" are items with no specified maturity.

Key factors that impact results of the net stable funding ratio

Net stable funding ratio on consolidated basis as of June 30, 2022 was 114%, compared to 116% on March 31, 2022. This decrease is due to an increase, quarter over quarter, in total net stable financing required (primarily under Loans), which was higher than the increase, quarter over quarter, in total available net stable funding (primarily under Deposits from Individuals and from Small Businesses and Wholesale Funding).

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 clients 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 included on the Risks Report:

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

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

Terms with regard to banking and finance

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

Terms with regard to regulatory directives

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

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מזרחי טפחות

MIZRAHI TEFAHOT

MIZRAHI TEFAHOT LTD.
Head office: 7 Jabotinsky st.
Ramat-Gan, 5252007
www.mizrahi-tefahot.co.il