

Bank Leumi

# Risk Management Report

As at December 31, 2022

The Risk Management Report is available on the Bank's website, at: <https://english.leumi.co.il> and on the Israel Securities Authority's MAGNA website, at [www.magna.isa.gov.il](http://www.magna.isa.gov.il)

This is a translation from the Hebrew. It has been made for convenience purposes alone.  
In case of any discrepancy, the Hebrew version shall prevail.

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<sup>1</sup> For information regarding the disclosure initials, please see the legend at the end of the report.

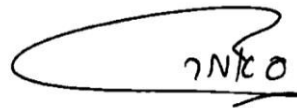
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## Part 1 - Overview

### Risk Management Report

We are pleased to present the Risk Management Report as at December 31, 2022 (hereinafter: the "Risk Management Report" or "Report") of Bank Leumi le-Israel B.M. (hereinafter - the "Bank"). The Risk Management Report was prepared in accordance with the directives and guidance of the Banking Supervision Department regarding the disclosure requirements outlined in Pillar 3 of the Basel Committee, as adopted under the Bank of Israel's Reporting to the Public Directives and additional risk information.

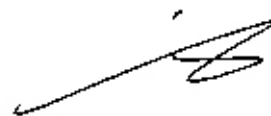
The Report constitutes complementary, additional information to the consolidated financial statements of the Bank and the Report of the Board of Directors and Management as at December 31, 2022 and should be read in conjunction with the information presented therein.



Dr. Samer Haj Yehia  
Chairman of the Board of Directors



Hanan Friedman  
President and CEO



Ronen Mori  
EVP, Head of Risk Management  
Division

March 13, 2023

## Purpose and the Disclosure Principle

The purpose of the Report is to enable users of the Bank's reports to evaluate significant information included therein regarding the application of the Basel Committee Framework, capital, risk exposure, and risk assessment processes.

The information in the Report includes:

- Disclosure requirements published by the Basel Committee (Pillar 3 requirements).
- Risk disclosure requirements based on other sources, including disclosure requirements published by the Financial Stability Board (FSB) via the Enhanced Disclosure Task Force (EDTF).
- Additional disclosure requirements pursuant to the Bank of Israel's reporting directives and guidance (additional information).

The Report was prepared in accordance with the requirements of the Banking Supervision Department regarding the provisions of Pillar 3 of the Basel Committee and Additional Information on Risks, as revised from time to time, and in accordance with the following principles:

- Regarding quantitative data included in previous disclosures under the Pillar 3 disclosure requirements or other disclosure requirements as mentioned above, comparative data have been provided for the corresponding period in the previous reporting year, as prescribed by the provisions.
- The information is partially based on the financial information presented in the Bank's financial statements, which is used as the basis for calculating regulatory ratios - with the necessary adjustments - and partially on internal assessments and models. As a result, some of the information includes unaudited estimates and/or represents information which is considered forward-looking.
- Most of the qualitative information regarding risk exposures and their management is detailed in this Report. Additional relevant information may be found under Risk Review in the 2022 Report of the Board of Directors and Management (hereinafter - the "Report of the Board of Directors and Management").

Furthermore, as from the financial statements for the year ended December 31, 2022, the Bank adopted leading global disclosure practices on climate risks as set by the - Task Force on Climate-Related Financial Disclosures (TCFD). In light of this, for more information on climate and environmental risks, please peruse the Bank's Environmental, Social and Governance (ESG) Report for 2022.

## Forward-Looking Information

The Risk Management Report includes, in addition to data relating to the past, information and assessments relating to the future, defined in the Securities Law, 1968, as "forward-looking information". Forward-looking information relates to a future event or matter, the materialization of which is uncertain and not under the Bank's exclusive control.

Forward-looking information is generally worded using the following words or phrases: "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "targets", "likely to impact", "estimate", "scenarios", "likely", "may", "can", "will be", "optimistic", "pessimistic", "assumptions", "alternatives" and additional phrases indicating that the matter in question is a forecast of the future rather than past facts.

Forward-looking information included in the Risk Management Report is based, inter alia, on forecasts of various matters related to economic developments in Israel and abroad, especially the currency markets and capital markets, legislation, regulators' directives, competitors' behavior, technological developments and human resources issues.

As a result of the inability to foresee with certainty that these forecasts indeed materialize, and the fact that, in reality, events may differ from those forecast, users should treat information defined as "forward-looking" with caution, since reliance on such information involves risk and uncertainty and the future financial and business results of the Leumi Group may be materially different.

The Bank does not undertake to publish updates on forward-looking information included in its reports. This does not derogate from the Bank's reporting obligations pursuant to any law.

## Scope

- A. The Group is regulated by the Banking Supervision Department of the Bank of Israel on a consolidated basis. The consolidation of the consolidated companies and the recording of the associates' book value are in accordance with the generally accepted accounting principles and the Bank of Israel's directives. As at December 31, 2022, there were no differences between the scope of consolidation according to the accounting principles and the regulatory scope of consolidation for capital adequacy purposes. As required by the Bank of Israel's directives, the data presented as part of the regulatory disclosure requirements in accordance with the Basel Committee provisions included in this Report are presented on a consolidated basis only and are based on the financial information presented in the financial statements, with the adjustments required pursuant to the implementation of the Basel Committee provisions (such as capital deductions, debt instruments qualified for inclusion in the regulatory capital, special treatment of the accounting effect in respect of the effect of the efficiency plan on the Bank's capital and adjusted calculation in respect of special actuarial liabilities).
- B. As of December 31, 2022, the Bank operates through foreign offices only in the UK.

For more information about the Bank's office in the UK, see the section about "the Banking Corporation's Risk Management Approach" below in this chapter.

### Main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israeli and foreign operations are as follows

The Bank of Israel does not restrict the Bank's deposits with the Group's subsidiaries in Israel and abroad, but has imposed restrictions on the Bank's capital investments and bonds in foreign companies abroad. Any increase in investment or decrease in holding any type of means of control to less than 80% requires prior approval by the Bank of Israel.

## Part 2 – Overview of Risk Management, Key Prudential Metrics and Risk-Weighted Assets

### Key Prudential Metrics (KM1)

		A	B	C	D	E
			September			
On a consolidated basis, as at:		December 31	30	June 30	March 31	December 31
		2022	2022	2022	2022	2021
Available capital (in NIS millions)						
1	Common Equity Tier 1 capital <sup>(a)(f)(g)</sup>	48,797	47,245	44,910	42,563	43,117
1A	Common Equity Tier 1 capital, before the effect of adjustments for efficiency plans	48,748	47,186	44,484	42,074	43,013
2	Tier 1 capital <sup>(a)</sup>	48,797	47,245	44,910	42,563	43,117
2A	Tier 1 capital, before the effect of adjustments for the efficiency plans	48,748	47,186	44,484	42,074	43,013
3	Total capital <sup>(a)(f)(g)</sup>	60,817	59,151	55,890	53,466	53,265
3A	Total capital, before the effect of adjustments for the efficiency plans	60,767	59,093	55,463	52,977	52,937
Risk-weighted assets (in NIS millions)						
4	Total risk-weighted assets (RWA) <sup>(a)(g)</sup>	425,643	414,093	399,169	394,779	374,776
Capital adequacy ratios, as per the Banking Supervision Department's directives (in %)						
5	Common Equity Tier 1 capital ratio <sup>(a)(f)(g)</sup>	11.46%	11.41%	11.25%	10.78%	11.50%
5A	Common Equity Tier 1 capital ratio, before effect of adjustments for efficiency plans	11.29%	11.25%	11.13%	10.71%	11.47%
6	Tier 1 capital ratio <sup>(a)</sup>	11.46%	11.41%	11.25%	10.78%	11.50%
6A	Tier 1 capital ratio, before the effect of adjustments for the efficiency plans	11.29%	11.25%	11.13%	10.71%	11.47%
7	Total capital ratio <sup>(a)</sup>	14.29%	14.28%	14.00%	13.54%	14.21%
7A	Total capital ratio, before the effect of adjustments for the efficiency plans	14.26%	14.27%	13.99%	13.42%	14.12%
11A	Common Equity Tier 1 capital ratio set by the Banking Supervision Department <sup>(b)</sup>	10.21%	10.21%	10.20%	10.19%	9.19%
12A	Common Equity Tier 1 capital ratio available, beyond that set by the of Banking Supervision Department <sup>(b)</sup>	1.25%	1.20%	1.05%	0.59%	2.31%
Leverage ratio pursuant to the Banking Supervision Department's directives <sup>(c)</sup>						
13	Total exposures (in NIS millions)	766,895	744,777	718,134	720,542	711,125
14	Leverage ratio (in %)	6.36%	6.34%	6.25%	5.91%	6.06%
14A	The leverage ratio, before the effect of adjustments for the efficiency plans (in %)	6.36%	6.34%	6.19%	5.84%	6.05%
Liquidity coverage ratio pursuant to the Banking Supervision Department directives <sup>(d)</sup>						
15	Total high-quality liquid assets (in NIS millions)	190,351	187,627	183,198	196,167	189,707
16	Total cash outflows, net (in NIS millions)	145,214	147,176	149,972	162,960	153,487
17	Liquidity coverage ratio (in %)	131%	127%	122%	120%	124%
Net Stable Funding Ratio pursuant to the Banking Supervision Department's directives <sup>(e)</sup>						
18	Total available stable funding	401,588	391,522	389,898	387,147	379,338
19	Total Required Stable Funding (RSF)	312,954	309,793	306,862	305,798	290,290
20	Net Stable Funding Ratio (in %)	128%	126%	127%	127%	131%

Please see comments below.



Comments:

These data include adjustments for the efficiency plans prescribed in the Banking Supervision Department's letter titled "Operational Efficiency of the Banking System in Israel", which are deducted gradually until June 30, 2022, and September 30, 2024 respectively. For more information on the effect of the adjustments in respect of the efficiency plans, please see the section entitled "Relief in respect of Operational Efficiency Plans" in Part 3 below.

The minimum Tier 1 capital ratio and minimum total capital ratio required until March 31, 2020 are 10% and 13.5%, respectively. On March 31, 2020, the Banking Supervision Department published a temporary order following the coronavirus crisis, according to which the minimum Common Equity Tier 1 capital and minimum total capital ratio are 9% and 12.5% respectively. To Common Equity Tier 1 capital was added a capital requirement of 1% of the outstanding housing loans, excluding housing loans granted during the temporary order period. Previous periods' data were revised following the Banking Supervision Department's clarification to the effect that the additional capital requirement in respect of housing loans shall only be added to Common Equity Tier 1 capital ratio. As at January 1, 2022, the minimum capital requirements applicable to the Bank are 10% for Common Equity Tier 1 capital ratio (with the addition capital requirements for housing loans balance) and 13.5% for total capital ratio. For more information about the temporary order following the coronavirus crisis, see below in the chapter about banking corporation's approach to assessing capital adequacy.

For more information on the leverage ratio, please see Part 4 below.

The Bank's liquidity coverage ratio was calculated according to average daily observations during the reported quarter. For more information on the liquidity coverage ratio, please see Part 7 below.

For more information on the Net Stable Funding Ratio, please see Part 7 below.

These data include adjustments in respect of the effect of first-time application of GAAP for current expected credit losses, which are gradually reduced until December 31, 2024.

On September 5, 2022, the Bank's Board of Directors approved, after obtaining the approval of the Banking Supervision Department, to change the manner in which pension liabilities are measured for regulatory capital purposes. According to the new measurement method, each quarter, the Bank will calculate the change in the pension liabilities resulting from changes in the discount interest rate, net of the change in the value of assets pre-designated to hedge these liabilities. The change in the net pension liabilities, after tax, will be spread in a linear fashion, over four quarters, as of the quarter for which the calculation had been made. The new method will be implemented starting on July 1, 2022 and will be in effect until the earlier of the two: a) The financial statements as at December 31, 2029 (inclusive) or b) The reporting date on which the average pension liabilities across the last four quarters will be lower than NIS 10 billion, linked to the CPI (from the known CPI as of July 1, 2022 to the known CPI on the relevant reporting date). At the same time, the Banking Supervision Department revoked its approval to measure the pension liabilities for regulatory capital purposes according to a moving average of market yields for a period of eight quarters ended on the relevant reporting date, which was in effect as of the financial statements as at June 30, 2016.

For more information regarding these metrics, including detailed quantitative disclosure, please see the following Report.

## The banking corporation's Risk Management Approach (ova)

The Bank's business operations involve the management of financial and non-financial risks. The key financial risks managed by the Bank are as follows: Credit risks, which are integral to the Bank's core business, as well as capital market and liquidity risks and environmental and climate-related financial risks. In addition to managing financial risks, the Bank's activities involve non-financial risks, the management of which is a crucial precondition to meeting the Group's immediate and long-term objectives. These risks include operational risks, such as technological and cyber risks, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, conduct risk, and macroeconomic risk.

Leumi's risk management strategy is to maintain the Group's stability and support the achievement of its business goals. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries of the Bank's business activity. The risk management framework includes risk identification and estimation mechanisms, defining organizational structure and responsibilities for their management, including adequate control and reporting mechanisms.

The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

The framework used for estimating and managing risk and as a basis for decision-making includes the following:

- A. The risk appetite - which outlines the boundaries of the business activity, both in the regular course of business and under stress scenarios, and which defines, inter alia, the policy and risk boundaries for each type of risk - is established pursuant to the Group's strategic goals.
- B. Workflows are established for analyzing and managing risk at the individual transaction level, according to various parameters which differentiate between various types of transactions, as well as at the portfolio level.
- C. Periodic risk assessment reports are prepared, addressing the changes in the Bank's environment as well as assessments of the implications of scenarios of varying severity.
- D. Action plans for handling and mitigating risk are drawn.

The risk management methods and work procedures are regularly assessed and updated, taking into account the changes occurring in the business environment and the requirements of the Bank of Israel and other regulators.

As part of the Bank's preparations for dealing with climate and environmental risks, it formulated a policy paper dealing with the mitigation of those risks and with the process of implementing the above-mentioned policy as part of a multi-year work plan. In this framework, the Bank has put in place a process for identifying the relevant risks, and formulates approaches for mitigating them. For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2022.

The risk assessment at the Group level, activity level and individual transaction level is based on several methodologies - some are based on expert assessments in each area of activity while others are based on various types of statistical models. Changes in the Israeli and global risk environment and in the risk perception require the Bank to evaluate, from time to time, the need to update its assessments and the methodologies, while constantly challenging them in-house and, at times, with the help of external experts.

## The business model

Bank Leumi and its subsidiary companies constitute one of Israel's largest banking groups.

As a leading banking group in Israel, and in order to achieve adequate profitability over time, Leumi constantly examines the trends and changes in the business environment in which it operates and develops strategies that address these changes.

Leumi is in the process of implementing a growth strategy focused on return on equity. As part of this strategy, Leumi adopted two main courses of action: On the one hand, the Bank strives to adapt its model without compromising the high-quality professional services it provides to all customer types, according to their needs, preferences and attitude to the adoption of digital innovation; on the other hand, the Bank develops new services and products, based primarily on the digital and technological innovation channels. These two courses of action depend on and are combined with the need to streamline the Bank's activity and maximize capital utilization while meeting capital adequacy targets.

For more information, please see the section entitled "Overview, Goals and Strategy" in the Annual Report of the Board of Directors and Management as at December 31, 2022.

## Additional Information on Risk Exposure and Assessment

### Corporate Governance Structure for Risk Management at the Bank, Processes and Key Functions

Leumi's risk management is based on three "lines of defense", as required by Proper Conduct of Banking Business Directive No. 310 - "Risk Management".

1. First line of defense – the managements of the business lines, including supportive functions and Leumi Technologies, bear full responsibility for managing the risks embodied in the products, operations, processes and systems under their purview, and for implementing an adequate control environment over their activities, through processes of identification, measurement, monitoring, control, mitigation and reporting.
2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility conform to the requirements of the Proper Conduct of Banking Business Directive No. 310, including: Responsibility for risk management at the Group and Bank levels; creating a comprehensive, up-to-date picture of the risks for decision-making purposes; leading the drafting of Leumi's risk policy for all major risks; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP).

The second line of defense involves additional functions, such as: the Bank's Chief Legal Counsel - who is responsible for the management of legal risk and the Chief Accountant - who is responsible for financial reporting and SOX.

3. Third line of defense is the Internal Audit Division, which reports directly to the Board of Directors. The Internal Audit Division is responsible for conducting independent, objective audits while the challenging controls, processes and automated systems in the banking corporation. Audits are usually performed retroactively on the first and second lines of defense, ensuring implementation of the provisions of the law and instructions of management and the Board of Directors.

The Bank's Board of Directors is responsible, inter alia, for developing the overall risk strategy, including: The risk appetite; supervision of the Group's risk management framework; approval of the risk management policy for each material risk; approval of the organizational structure; overseeing and challenging the risk levels to which the Group and the Bank are exposed, while ensuring compliance with the risk appetite and compliance with the law and regulations.

The Chief Risk Officer, who is a member of the Bank's management and heads the Risk Management Division, is responsible for managing the Group's and Bank's main risks.

The Head of the Credit Risk Department, the Head of the Compliance Department and the heads of the departments charged with the management of the various risks report to the Chief Risk Officer; the Risk Management Division, is responsible for the management of the said departments as a second line of defense, as described in the chart below.

The Bank strives to apply a risk management framework at the Group level, which includes corporate governance and control principles that are in line with the provisions of the law and local regulations. A chief risk officer is appointed for each Israeli and foreign subsidiary, reporting to the subsidiary's CEO and professionally (dotted line) to the Group's Chief Risk Officer.

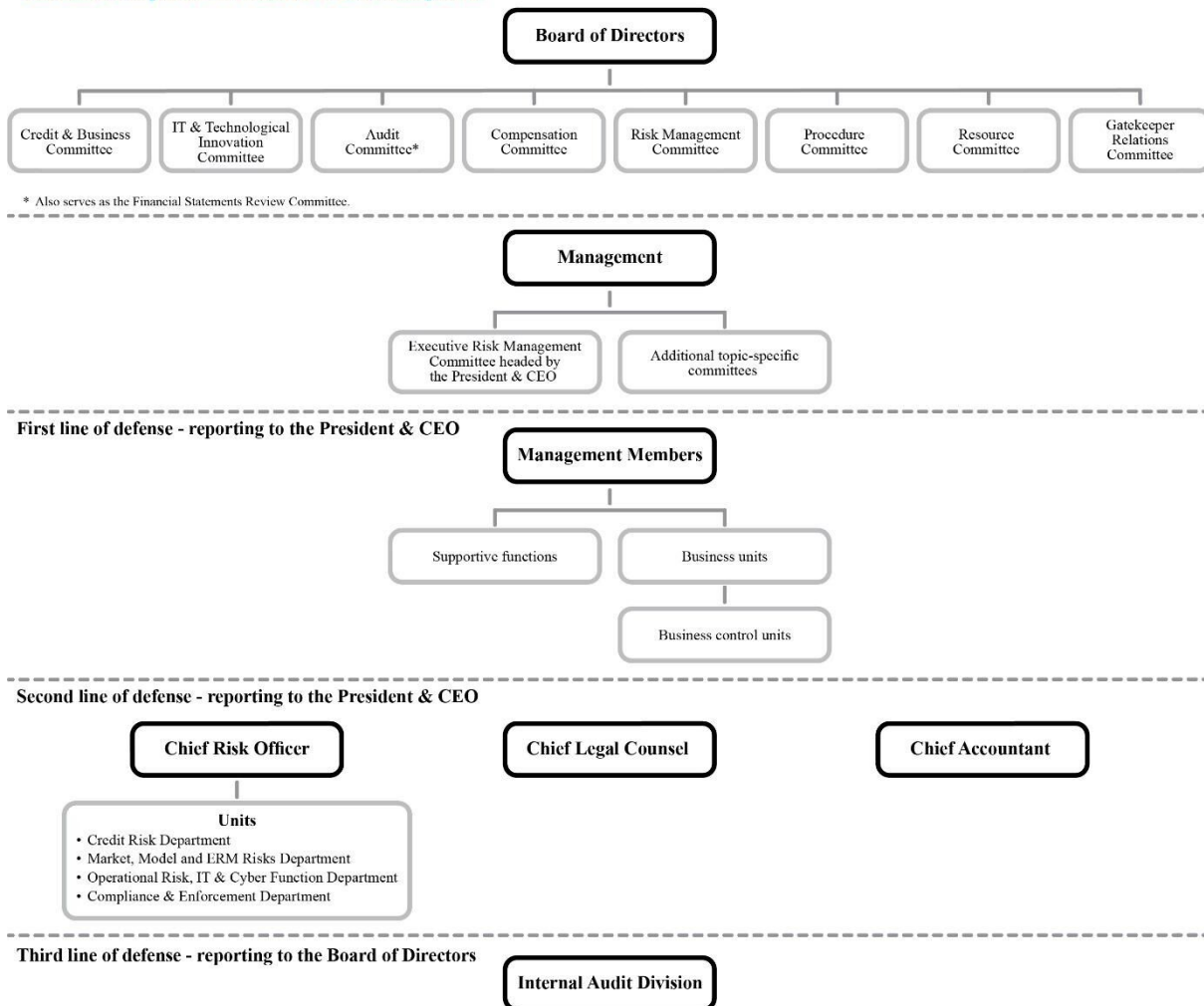
Risk management control and monitoring is conducted by the committees responsible for managing the various risks. The various committees discuss aspects of the various risk exposures; direct the drafting of policy papers; examine the risk profile and models measuring risk exposure; and prescribe internal boundaries and control processes in accordance with the market conditions and the Bank's risk appetite. Below is a breakdown of the committees:

- The Risk Management Committee of the Board of Directors
- Board Of Directors' Audit Committee
- The Credit and Business Committee of the Board of Directors
- Gatekeepers Interface Committee of the Board of Directors

- The Executive Risk Committee, which is headed by the President and CEO and whose members include all of members of management
- Various risk management committees by topic, headed by the Head of the Risk Management Division, with the participation of the relevant business entities, as follows:
  - Executive Credit Risk Management Committee
  - Executive Market Risk Management Committee
  - Executive Operational Risk Management Committee
  - Executive Committee of Risk Management for Foreign Offices
  - Executive Models Risk Management Committee
  - Total Return Risk Committee
  - New Product Risk Management Executive Committee
  - Compliance Risk Management Executive Committee headed by the Chief Compliance Officer
- Committee for Implementation of Cross-Border Banking, headed by the Chief Legal Counsel
- Disclosure Committee on the effectiveness of disclosure controls and procedures for the financial statements and changes in the internal control over financial reporting – SOX, headed by the President and CEO and whose members include all members of management.

The subsidiaries manage risk in accordance with the principles prescribed at the Group level, with their policy papers corresponding to the Group's policy and reflecting relevant changes, as needed. Risk appetite, boundaries and areas of responsibility are established for each risk area, with control systems in place and periodic management reports examining the boundaries against the actual situation; supervision is exercised by each subsidiary's Board of Directors.

## The Bank's Corporate Governance for Risk Management





### The risk management culture and its implementation

The Leumi Group maintains an organizational culture based on robust risk management, which is key to effective risk management. The Risk Management Division is involved in, and leads, the Group's key processes, in order to ensure that risk management processes are incorporated into the business activity. In addition, the Bank believes in, and conducts ongoing training, to both reinforce the professionalism of the personnel involved in the Group's risk management and assimilate the risk management culture and risk management principles in the various business lines.

The key principles underlying the Bank's risk culture are as follows:

- Corporate governance comprising three lines of defense (the business lines, independent risk management and internal audit).
- The Group's risk appetite and policy for managing various risks are approved by the Board of Directors. In addition, cross-organizational processes are held, such as the ICAAP, stress scenarios and integrating risk management into the Bank's work plan. The business activity and risk management and controls are organized effectively so as to minimize conflict of interest among the employees and Group-level units. The employees' professional level corresponds to the complexity of their functions and the risks they manage.
- Comprehensive differential risk management - Managing all material risks and their interfaces, while taking into account the level of overlap between the risks.
- The existence of a defined organizational structure and areas of responsibility, that support and reinforce the understanding of the responsibilities and authorities of the entities responsible for risk management.
- The Bank's risk management culture encourages open communication, sharing information and conducting deliberations across the organization, which constitute another layer supporting decision-making process.
- The Bank has tools in place for risk identification and assessment, while regulating means of supervision, control and reporting.
- Introducing a new product approval process - A policy was defined for approving new products and supporting their assimilation, making significant changes in existing products or activities and entering new markets. The approval process involves examining the risks embodied in each new product and their effect on the risk profile.
- The Bank promotes and assimilates a culture of fair business conduct, taking into account the customers' needs.
- The Bank views the management of climate and environmental risks an integral part of its business activity and of an overall risk management framework. Thus, according to the Bank's approach, its risk management culture will also cover the management of those risks as an integral part of the Bank's management of its key risks.
- The Bank's activity is managed pursuant to the principles of its Code of Ethics, which reflect the Bank's core values.

### The Internal Capital Adequacy Assessment Process (ICAAP)

The Capital Adequacy Assessment Process (ICAAP) is aimed at calculating the capital required to support the various risks to which the Group is exposed - both in the ordinary course of business and under stress scenarios - in order to ensure that the Group's effective capital exceeds the capital requirements at any given time. As part of the process, the risk appetite and risk tolerance were examined, and the Group carried out a comprehensive mapping and risk assessment process of the risks to which it is exposed.

According to the process, the Bank is in possession of adequate capital and liquidity to handle all of the risks identified - both in the ordinary course of business and under extreme stress scenarios.

The products of the process are summarized in the ICAAP paper that is submitted to the Banking Supervision Department each year.

### The risk appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to Leumi's strategy and to the boundaries of its current and forward-looking business focal points. The risk appetite addresses Leumi's risk identification, measurement, control, management and mitigation practices, which have direct effect on the Group's residual risk profile. The risk appetite boundaries are re-examined each year in the various dedicated frameworks and approved from an overall perspective at the Board of Directors' level as part of the ICAAP process.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. For that purpose, quantitative and qualitative metrics were set, based on forward-looking assumptions. The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

### Using stress testing as part of risk management

Using a global stress test is an accepted global practice. It is required under the Basel Committee rules and contributes to understanding the risk exposure both at the banking system and individual bank levels. The process boosts the banking system's transparency, allows to examine the robustness of banking corporations under adverse market conditions and to draw comparisons between them. The process supports methodology improvements and the understanding of the risk factors by banking corporations as well as by the Banking Supervision Department.

As of 2012, the Bank of Israel's Banking Supervision Department conducts macroeconomic stress tests for the banking system, based on a uniform scenario. In this framework, the Bank estimates the test results using a variety of models and methodologies that are also based on subjective "expert assessments".

During the first quarter of 2023, the effects of the uniform stress scenario – as defined by the Bank of Israel - for 2022 were assessed - a global stress test.

The Banking Supervision Department incorporates the results of the global stress test as a supplemental component of the Supervisory Review and Examination Process (SREP), including quantitative and qualitative elements. At the same time, banking corporations are required to integrate the global stress test into their Internal Capital Adequacy Assessment Process (ICAAP).

The Leumi Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank's operating environment.

The effect of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group's compliance with all of the regulatory and internal restrictions set in respect of the materialization of the various scenarios.

### Risk profile - Defining the risk factors' severity

Leumi's risk profile is examined on a quarterly basis, as part of the exposure report submitted to the Board of Directors each quarter. The risk profile is examined, inter alia, by using a methodology for classifying the severity level of exposures to the various risks. The methodology is based on quantifying the effect of various scenarios' materialization on the Group's capital, i.e. its stability, and includes "expert assessments" by relevant functions in the Bank.

In the third quarter of 2022, the severity level of the liquidity risk was raised from "low" to "low-moderate" on the back of changes in the macro environment and the increase in raising financing in Israel and around the world.

Interest rate risk and margin risk are calculated for all the Bank's assets and liabilities, including liabilities to employees, and it was therefore decided that as of the 2022 financial statements it is not required to present the pension risk factor separately.

For more information, please see under "Risk Exposure and Management Thereof" in the Report of the Board of Directors and Management as at December 31, 2022.



#### Bank Leumi USA and the merger transaction with Valley National Bancorp

On September 23, 2021, Bank Leumi Corporation (BLC), a US-incorporated corporation (85% of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Corp ("Valley").

On April 1, 2022, the merger was completed.

Valley is a banking holding company, which holds Valley National Bank (hereinafter - "Valley Bank"). Valley Bank was founded in 1927.

Following the completion of the transaction and execution of the merger procedures, BLC was merged into Valley and BLUSA was merged into Valley Bank (hereinafter - the "Merger Agreement").

The proceeds of the transaction will be paid to the Bank in Valley shares (90% of the proceeds) and the rest - in cash. Once the transaction has been completed, the Bank holds 14.2% of Valley's share capital and is not the largest shareholder, but as of the publication date, it is the largest shareholder in Valley.

As a result of the merger, a profit of approx. NIS 645 million, net of tax, was recorded. Out of that amount, a total of approx. NIS 194 million was recorded in the first quarter of 2022, and a total of NIS 451 million was recorded in the second quarter of 2022.

Starting from April 1, 2022, the Bank is accounting for the investment in Valley according to the equity method and classifies its investment in Valley as a foreign operation whose functional currency is other than the shekel.

For more information, please see Note 15.A to the financial statements as at December 31, 2022.

#### The Bank's UK office

The Bank's activity in the UK began in 1902, and in 1959 Bank Leumi (UK) PLC (BLUK) was established.

On March 8, 2022, the Bank's board of Directors approved the recommendation of BLUK's board to implement a measure which includes returning BLUK's regulatory license, such that after the measure will have been completed, BLUK will be a credit provision company. To this end, BLUK will be merged into LABL, a BLUK subsidiary (hereinafter - "Leumi UK Group").

Leumi UK Group provides credit primarily in the fields of real estate, hotels and ABL, only to commercial customers in the UK and Europe, including Israeli customers active in these geographies; this includes investments in and development of residential real estate and financing of commercial real estate (homes for the elderly and student dormitories). Funding is extended both to customers in and outside the UK (mainly Israeli).

On December 31, 2022, all the conditions required for the organizational change process were met, including the transfer of all business activity from BLUK to Leumi UK Group and an announcement of voluntary liquidation of BLUK, so that all that remains is the receipt of the UK regulator's confirmation regarding the cancellation of BLUK's banking license.

Leumi UK Group's net income in 2022 was approx. GBP 12 million, compared with the amount of approx. GBP 17 million in 2021.

#### Collective agreement on employee benefits

On December 31, 2022, the collective agreement on employee pay and benefits expired; the agreement was effective during 2019-2022. Negotiations are now being held between the Bank management and the employees' representatives for the signing of a new collective agreement.

## Most Material and Emerging Risks

In recent years, major emerging risks arise from the Bank's operating environment, which has been highly affected by risks related to regulation and legislation, a volatile macro-economic environment, and changes in the business model - including the transition to digital "new banking" and new social and consumer trends. In recent years - due to changes in the competitive environment, the consumer environment, the regulatory environment and the technological environment - non-financial risks are emerging.

Following are the most material and emerging risks:

### Information security and cyber risk

Leumi continues to promote the provision of financial services through digital platforms, expanding the use of advanced technologies. As a result, the risk of cyber-attacks is growing, as is Leumi's exposure to the materialization of cyber risks, respectively.

Risk management and cyber security are implemented, with significant resources invested. The resources are invested according to the business strategy and risk tolerance.

As part of its effort to boost its cyber defenses and manage cyber risks, Leumi developed a cyber policy and tolerance, mapped its cyber risks, implements mitigation plans and recovery capabilities, and conducts cyber drills.

Leumi operates Fusion Center - a cyber protection center, which features a range of cyber security specialists who monitor, collect and manage intelligence and handle cyber incidents, with the purpose of identifying and neutralizing unusual incidents which may harm the Bank and its customers.

The increase in cyber attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains continues. The characteristics of the attacks are varied and include ransomware attacks, phishing and social engineering attempts. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and extensive and remote work by employees and suppliers.

Leumi takes several measures to mitigate the risks, including: implementing preventive and detective controls, conducting information security surveys, boosting monitoring to remove fictitious websites, rendering authorization management and control processes more stringent, and increasing awareness to information security guidance among the employees.

During 2022, no cyber incidents were discovered which affected Leumi's financial statements.

For more information, please see the IT and cybersecurity risk in the Operational Risks chapter to the Report of the Board of Directors and Management as of December 31, 2022.

### Strategic Risk

The financial industry and banking sector are experiencing significant changes affecting strategic risk and requiring adjustment to the business model, including:

Entry of new players, such as BigTechs (Google, Amazon, Facebook, Apple), FinTechs, insurance companies, non-banking credit companies and digital banks, which often enjoy regulatory arbitrage compared to the regulation applicable to banks, as well as agile business systems.

Regulatory changes supporting encouragement of competition, such as the duty to reduce credit facilities, using the Central Credit Register, the Interbank Transition Law and Open Banking initiative. It should be noted that while the regulatory changes often restrict the banks' activity, in many cases they do not apply to competitors such as insurance companies, FinTechs and sizable tech companies, such as Apple and Google.

A three-year plan, the Bank's strategic risk is approved by management and the Board of Directors. The strategic plan is drawn following a comprehensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, with the aim of identifying and mapping threats and opportunities. In addition, an annual refresher process is undertaken, in which the key external trends are examined, as well as their potential impact on Leumi. The strategic risk is managed by the Bank's Board of Directors and management, with the assistance of the Strategy, Digital and Data Division.

For more information, please see the Strategic risk in the Other Risks chapter to the Report of the Board of Directors and Management as of December 31, 2022.

### Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on international trade.

The main macroeconomic changes currently relate to the contractionary monetary process that is taking place in most countries around the world, in response to the acceleration of inflation. The acceleration of inflation occurred due to the severe disruption in supply chains during the first part of the coronavirus crisis alongside changes in the composition of the aggregate demand and supply. In response, during 2022, central banks began to take various steps to restore monetary restraint by raising the interest rate, quantitative tightening and other measures. The main risks relate to the extent to which the course of monetary tightening, which has not yet reached its peak, will moderate economic activity. Another risk relates to the possible need for additional interest rate rises, more than those currently expected by the markets due to continued inflation, putting another burden on economic activity.

The coronavirus crisis still represents a global macroeconomic risk, but to a lesser extent on the domestic economy, and therefore this is a factor with a possible impact on the Bank's business. A significant resurgence of morbidity, if such occurs, may harm business activity of sensitive industries such as tourism, aviation, leisure, entertainment, food services, etc., as well as significant indirect impacts on a wide range of industries in the fields of commerce, services and non-residential real estate. This crisis left many economies around the world with a significant increase in sovereign debt, a development which is liable to pose a future risk to the stability of financial markets. In addition, there are significant risks arising from climate change and various geopolitical risks, including the Ukrainian-Russian crisis, which increase the potential for volatile global economic processes.

Subsequent to the reporting period, public events began - legislative and social - regarding which there is considerable uncertainty as to the manner of their development and impact on the Israeli economy in the medium and long term, and as a result - on the bank's results. The said events may have an adverse effect on the Israeli economy and as a result, on the Bank's performance. For now, changes are evident in Israel's financial markets and in the pricing of Israeli financial assets in the global markets, including the weakening of the exchange rate of the shekel against the currency basket, the dollar and the euro, the increase in Credit Default Swaps (CDS) of the State of Israel, which are traded across the world, and very high volatility in leading indices in the Tel Aviv Stock Exchange.

The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In this context, the Bank conducts uniform stress scenarios following a request by the Banking Supervision Department. In addition, ongoing monitoring and follow up of market developments are conducted in order to prepare in advance and adapt the activity, as needed.

For more information, please see the section entitled "Main Developments in the Israeli Economy" in the Report of the Board of Directors and Management as at December 31, 2022.

### Technological Risks

Leumi attaches great significance to its technological infrastructure that serves its customers and employees enabling business and operational availability and continuity, and invests considerable resources to ensure this.

Leumi is implementing a business-technological (modernization) plan to achieve its business goals in the coming years. The plan is managed under tight corporate governance.

For more information, please see the technology risk in the Operational Risks chapter to the Report of the Board of Directors and Management as of December 31, 2022.

### Regulatory Risk

The Leumi Group operates in a complex and multidisciplinary regulatory environment. Material ongoing changes in diverse regulatory domains require adequate ongoing preparedness of the Bank's activities.

The Bank monitors and identifies the regulations relevant to its activity on an ongoing basis, in order to ensure its preparedness for applicable regulatory changes and revisions and for the material emerging trends in this field - all as part of the Bank's comprehensive activity and the development of its business and strategic goals. In this framework, the Bank monitors and identifies applicable regulations in Israel. In addition, as far as international regulation is concerned, the bank identifies relevant information in predefined areas and analyzes information in order to identify foreign regulation and global trends in the activity of relevant regulators in the United States, the European Union and the UK, which could impact the Bank's activity.

For more information, please see under "Regulatory Risk" in Part 10 below.

### The Construction and Real Estate Risk

The construction and real estate industry is an area of activity to which the Bank has significant credit exposure.

In recent months, there has been a significant decline in demand in the housing market, on the back of a macroeconomic environment of rapid rise in inflation, interest rates hikes and expectations for lower growth rates. On the other hand, it is estimated that the high growth rate of the population in Israel will continue to drive demand in the mid to long-term. The Bank is reviewing the effects of the rise in interest rates and slowdown in demand for housing in the past months on companies' liquidity. It is currently believed that the effect on the credit risk in this sector will not be material.

Leumi continues to proactively expand the real estate portfolio, focusing on the housing segment and selected financially resilient customers. The Bank is also careful to maintain geographical diversification of the projects, according to demand and macroeconomic forecasts.

Credit granted to the real estate sector is in line with the Bank's risk appetite, strict underwriting, a stringent financing and supervision method, property collateral and adequate pricing. As a result, and in an effort to continue being a dominant player in real estate financing, the Bank strives to make optimal and effective use of the internal and regulatory restrictions in this domain and in light of the macroeconomic forecasts.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and tracking the development of the segment's risk characteristics.

In recent years, growth in the real estate credit portfolio at Leumi was accompanied by a certain increase in LTV on the back of the growing competition in the market. Most of the increase in the LTV was in the financing of residential land and projects in high-demand areas.

The share of the troubled credit risk in the construction and real estate industries (activity in Israel) was up but continues to be lower than the share of the troubled credit risk in the total portfolio.

As of 2016, the Bank insures its guarantee portfolio in accordance with the Sales Law (Apartments). In addition, as from the December 31, 2021, the Bank also insures part of the financial credit portfolio for the funding of land, and as from the third quarter of 2022 it also insures part of the performance and guarantee portfolio associated with the real estate sector.

For more information, please see the chapter dealing with the Activity and Risk Boundaries in the Construction and Real Estate sector below and in the Report of the Board of Directors and Management as at December 31, 2022.

### Climate and Environmental Risk

Environmental and climate-related risks to the Bank are exposure to potential damage which may be caused as a result of events or processes related to the environment, including climate change, such as: greenhouse gas emissions, waste generation, air and water pollution, land contamination, adverse effect on biological diversity, deforestation, and extreme weather events.

Environmental and climate risks are normally divided into three types: physical risks, transition risks and liability risks, and the Bank is exposed to these risks both directly and indirectly. Thus, environmental risks may have a financial and non-financial impact on the Bank, such as credit risk, market risk and liquidity risk, operational risk, compliance risk, legal risk, regulatory risk, and reputational risk.

The Bank formulated a climate and environmental policy in order to support the Bank's sustainability culture, and assist Bank's customers in their transition to a sustainable economy, in view of the importance of this issue to the Israeli economy and society, with the aim of dealing with the global consequences of global warming for their business activity, and as part of serving the interest of the Bank's investors.

The policy regulates corporate governance procedures for risk management and for identifying and promoting business opportunities, which are integrated into the existing corporate governance and constitute an integral part thereof. The framework includes the determining of a strategy and long-term targets, policy, allocation of responsibility between the various Bank units, reporting mechanisms and supervision and control mechanisms over the implementation of the policy and strategy. In addition, it is formulating a work plan that includes improved methodologies and measurement methods. Alongside actions taken by the Bank to identify and map the exposure to climate and environmental risks and to reduce them.

In December 2022, the Banking Supervision Department published another circular (in continuation to the circular dated December 5, 2021) which includes recommendations for disclosure regarding the Bank's risk management issues and environmental opportunities, including climate risks. The directive will come into force as from the Bank's Environmental, Social and Governance (ESG) Report for 2022.

Environmental risk is an "evolving" risk. Evolving risks are characterized by lack of quantitative data of adequate historical depth for their estimate and by high variance compared to other risks over time; this requires well-structured processes to adjust their management and measurement tools.

The Bank is monitoring regulatory, technologies and company-based developments, studying them and adjusting the risk management tools and methodologies on an ongoing basis.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information".

For more information, please see the climate and environmental risk below and the environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2022.

## Review of risk-weighted assets (OV1)

	A	B	C
	<b>December 31, 2022</b>	September 30, 2022	<b>December 31, 2022</b>
	Risk-weighted assets		Minimum capital requirements <sup>(a)</sup>
	In NIS millions		
1 Credit risk (standardized approach) <sup>(b)</sup>	<b>357,346</b>	346,064	<b>48,243</b>
6 Counterparty credit risk (standardized approach)	<b>12,507</b>	13,246	<b>1,688</b>
10 Credit valuation adjustment (CVA)	<b>3,323</b>	3,198	<b>449</b>
16 Securitization exposures (standardized approach)	<b>751</b>	652	<b>101</b>
Amounts below the deduction thresholds (subject to a			
25 250% risk weight)	<b>18,731</b>	18,306	<b>2,529</b>
Total credit risk	<b>392,658</b>	381,466	<b>53,010</b>
20 Market risk (standardized approach)	<b>6,610</b>	7,532	<b>892</b>
24 Operational risk	<b>26,375</b>	25,095	<b>3,561</b>
27 Total	<b>425,643</b>	414,093	<b>57,463</b>

- (a) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required until March 31, 2020 are 10% and 13.5%, respectively. On March 31, 2020, the Banking Supervision Department published a temporary order following the coronavirus crisis, according to which the minimum Common Equity Tier 1 capital and minimum total capital ratio are 9% and 12.5% respectively. To Common Equity Tier 1 capital was added a capital requirement of 1% of the outstanding housing loans, excluding housing loans granted during the temporary order period. As at January 1, 2022, the minimum capital requirements applicable to the Bank are 10% for Common Equity Tier 1 capital ratio (with the addition of capital requirements for the outstanding balance of housing loans) and 13.5% for total capital ratio.
- (b) Credit risk does not include counterparty credit risk, credit valuation adjustment, settlement risk, securitization exposures and amounts below the deduction thresholds.

For more information on the connection between the financial statements and regulatory exposures, please see Addendum A to the Report.

## Additional Information on Risk-Weighted Assets

### Movements in risk-weighted assets

Below are changes in risk-weighted assets arising from changes in mix, credit quality and other reasons that affected their balance in order to quantify the Bank's capital requirements:

#### Movement in credit risk-weighted assets<sup>(a)</sup>

	For the year ended December 31	
	2022	2021
	In NIS millions	
Opening balance	346,602	303,356
Change in balance sheet transactions	26,258	34,907
Derivatives	7,871	354
Off-balance-sheet	5,299	8,700
Securitizations	247	52
Deferred taxes	(385)	(486)
Other assets	(1,252)	(825)
Investments in financial corporations	6,089	62
CVA	1,553	248
Shares	376	234
Closing balance	392,658	346,602

(a) Movement includes amounts related to credit risk, counterparty credit risk, securitization exposures and amounts below the deduction thresholds, subject to a 250% risk weight.

#### Movement in market risk-weighted assets

	For the year ended December 31	
	2022	2021
	In NIS millions	
Opening balance	5,592	5,313
Interest rate risk - change in open positions	1,148	766
Foreign currency risk - change in open positions - USD, GBP, euro and yen	291	(608)
Equity risk - change in futures and options on stock indices	(9)	(100)
Options risk - change in currency options - NIS/forex and forex/forex	(412)	221
Closing balance	6,610	5,592

#### Changes in operational risk-weighted assets

	For the year ended December 31	
	2022	2021
	In NIS millions	
Opening balance	22,582	22,182
Change	3,793	400
Closing balance	26,375	22,582

### Components of risk-weighted assets by business activity

Following is the allocation of risk-weighted assets according to the business lines, as reflected in the Bank's reporting on operating segments:

December 31, 2022											
	Activity in Israel									Foreign operations	Total
	House-holds	Private banking	Small-and micro-busines	Mid-sized busi-nesses	Corpo-rations	Institu-tionals	Finan-cial mana-gement	Other seg-ment	Total for Israel		
In NIS millions											
Credit Risk	93,171	214	53,389	40,321	159,244	6,408	18,181	14,626	385,554	7,104	392,658
Market risk	-	-	-	-	-	-	6,584	-	6,584	26	6,610
Operational risk	6,800	448	5,139	2,221	4,003	436	5,820	220	25,087	1,288	26,375
Total risk-weighted assets	99,971	662	58,528	42,542	163,247	6,844	30,585	14,846	417,225	8,418	425,643

December 31, 2021											
	Activity in Israel									Foreign operations	Total
	House-holds	Private banking	Small-and micro-busines	Mid-sized busi-nesses	Corpo-rations	Institu-tionals	Finan-cial manag-ement	Other seg-ment	Total for Israel		
In NIS millions											
Credit Risk	80,907	331	49,479	35,777	110,776	599	23,610	16,405	317,884	28,718	346,602
Market risk	-	-	-	-	-	-	5,589	-	5,589	3	5,592
Operational risk	5,872	379	4,550	1,851	3,321	451	3,984	373	20,781	1,801	22,582
Total risk-weighted assets	86,779	710	54,029	37,628	114,097	1,050	33,183	16,778	344,254	30,522	374,776



## Part 3 - Capital

### Composition of the Bank's Regulatory Capital (CC1)

	December 31, 2022		December 31, 2021		
	Regulatory capital	Amounts not deducted from capital subject to mandatory treatment prior to the adoption of Directive 202 according to Basel III	Regulatory capital	Amounts not deducted from capital subject to mandatory treatment prior to the adoption of Directive 202 according to Basel III	Reference to the regulatory balance sheet
	In NIS millions				
Common Equity Tier 1 Capital: Instruments and Reserves					
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common Equity Tier 1 capital	9,961	-	7,225	-
2	Reserves, including dividend proposed or declared after the balance sheet date	42,774	-	37,209	-
3	Accumulated other comprehensive income and reserves for which disclosure was made	(3,297)	-	(2,824)	-
5	Common share capital issued by subsidiaries of the banking corporation which were consolidated and held by a third party (minority interests)	-	-	300	-
6	Common Equity Tier 1 capital before regulatory adjustments and deductions	49,438	-	41,910	-
Common Equity Tier 1 Capital: Regulatory Adjustments and Deductions					
8	Goodwill	1,205	-	178	-
14	Unrealized gains and losses resulting from changes in the fair value of liabilities arising from changes in the banking corporation's own credit risk	21	-	23	-
21	Deferred taxes receivable incurred as a result of timing differences, whose total exceeds 10% of the Common Equity Tier 1 capital	384	-	1,686	-
26	Additional regulatory adjustments and deductions prescribed by the Banking Supervision Department	(969)	-	(3,094)	-
26C	Of which: In respect of calculation of regulatory curve for calculation of pension liabilities	334	-	(1,303)	-
26C	Of which: For the effect of the efficiency plans	(49)	-	(104)	-
26C	Of which: Deduction of payroll tax component from deferred tax asset	(1,254)	-	(1,687)	-
28	Total regulatory adjustments and deductions to CET1 capital	642	-	(1,207)	-
29	Common Equity Tier 1 capital	48,797	-	43,117	-
45	Tier 1 capital	48,797	-	43,117	-
Tier 2 capital: Instruments and provisions					
46	Instruments issued by the banking corporation (that are not included in CET1 capital) and premium on these instruments	7,547	-	5,848	-
47	Tier 2 capital instruments issued by the corporation that are qualified for inclusion in regulatory capital in the transitional period	-	-	224	-
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation and to third party investors	-	-	81	-
49	Of which: Tier 2 equity instruments issued by subsidiaries of the banking corporation and held by third party investors that are deducted gradually from Tier 2 capital	-	-	81	-
50	Collective provisions for loan losses before the relevant tax effect	4,473	-	3,995	-
51	Tier 2 capital before deductions	12,020	-	10,148	-
58	Tier 2 capital	12,020	-	10,148	-
59	Total capital	60,817	-	53,265	-

		December 31, 2022	December 31, 2021			
		Regulatory capital	Amounts not deducted from capital subject to mandatory treatment prior to the adoption of Directive 202 according to Basel III	Regulatory capital	Amounts not deducted from capital subject to mandatory treatment prior to the adoption of Directive 202 according to Basel III	Reference to the regulatory balance sheet
In NIS millions						
	Total risk assets weighted in accordance with the treatment required before adoption of Directive No. 202 pursuant to Basel III	-	-	-	-	-
	Of which: Other deferred tax assets	-	-	-	-	13
60	Total risk-weighted assets	425,643	-	374,776	-	-
Capital ratios and buffers (in %)						
	Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	11.46%	-	11.50%	-	-
61	assets)	11.46%	-	11.50%	-	-
62	Tier 1 capital (as a percentage of risk-weighted assets)	11.46%	-	11.50%	-	-
63	Total capital (as a percentage of risk-weighted assets)	14.29%	-	14.21%	-	-
Minimum requirements set by the Banking Supervision Department <sup>(a)</sup>						
	Minimum CET1 capital ratio set by the Banking Supervision Department	10.21%	-	9.19%	-	-
69	Department	10.21%	-	9.19%	-	-
	Minimum total capital ratio set by the Banking Supervision Department	13.50%	-	12.50%	-	-
71	Department	13.50%	-	12.50%	-	-
Amounts below the deduction threshold (before risk weighting)						
	Investments in equity of financial corporations (excluding banking corporations and their subsidiaries) not exceeding 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	917	-	688	-	14
72		917	-	688	-	14
	Investments in Common Equity Tier 1 capital of financial corporations (excluding banking corporations and their subsidiaries) exceeding 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	2,499	-	133	-	15
73	threshold	2,499	-	133	-	15
75	Deferred taxes receivable created incurred as a result of timing differences that are below the deduction threshold	4,825	-	4,171	-	16
Ceiling for including provisions in Tier 2						
	Provision that qualifies for inclusion in Tier 2 relating to exposures under the standardized approach, prior to implementing the ceiling	5,167	-	3,995	-	-
76		5,167	-	3,995	-	-
	Ceiling for inclusion of provisions in Tier 2 under the standardized approach	4,908	-	4,333	-	-
77	approach	4,908	-	4,333	-	-
Equity instruments not qualified as regulatory capital subject to the transitional provisions						
	Amount of the present ceiling for instruments included in Tier 2 capital subject to the transitional provisions	-	-	224	-	-
84		-	-	224	-	-
85	Amount deducted from Tier 2 capital due to the ceiling	-	-	1,231	-	-

Comments:

- (a) The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required until March 31, 2020 are 10% and 13.5%, respectively. On March 31, 2020, the Banking Supervision Department published a temporary order following the coronavirus crisis, according to which the minimum Common Equity Tier 1 capital and minimum total capital ratio are 9% and 12.5% respectively. To Common Equity Tier 1 capital was added a capital requirement of 1% of the outstanding housing loans, excluding housing loans granted during the temporary order period. For more information about the temporary order following the coronavirus crisis, please see the section entitled "Additional Information on Equity and Capital Adequacy".

#### Reconciliation of regulatory capital components to balance sheet

For the disclosure of the regulatory capital components to balance sheet, please see Addendum A to the Report.

## Additional information on Equity and Capital Adequacy

### Issuance of shares

On June 23, 2022, the Bank completed an issuance of 90,909,091 ordinary shares, NIS 1 p.v. each, for a total consideration of NIS 2.75 billion. This is part of a non-uniform issuance to institutional investors, in Israel and abroad. The capital raising was carried out in the context of the Bank's significant growth in the first quarters of 2022 and the desire to continue the growth momentum while continuing to focus the growth in mid-sized businesses, mortgages and business credit. The consideration of the issuance strengthened the Bank's regulatory capital and allowed it to continue with its growth strategy and bring value to the shareholders.

**Equity attributable to the Bank's shareholders** totaled NIS 49,438 million on December 31, 2022 compared with NIS 41,610 million as at the end of 2021.

This capital serves as the basis for calculating the regulatory capital which, in turn, is used to calculate the Bank's capital adequacy ratio with the addition of equity instruments and regulatory adjustments as set out in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 202.

The equity to asset ratio as of December 31, 2022 is 7.1%.

The capital adequacy ratios in 2022 were affected by the significant increase in the credit portfolio and by market declines, including in the context of the interest rate increase. In addition, the capital adequacy ratios were affected in the reporting period by several significant events, some having a one-time effect:

- As aforementioned, in the second quarter of the year, the Bank completed an issuance of shares;
- On April 1, 2022, the merger between BLUSA and Valley was completed; the transaction improved the Bank's capital ratios on the date of completion. For more information regarding the transaction, please see Note 15.A to the financial statements as at December 31, 2022;
- As of July 1, 2022, the Bank applies Directive No. 203A, Treating Counterparty Credit Risk, as well as revised Directives Nos. 203 and 218. The effect of the application of the provisions as of the transition date led to a decrease of approx. 0.2% in the Common Equity Tier 1 capital ratio and approx. 0.26% in the total capital ratio, please see details below in this chapter;
- On September 5, 2022, the Bank's Board of Directors approved, after obtaining the approval of the Banking Supervision Department, to change the manner in which pension liabilities are measured for regulatory capital purposes. According to the new measurement method, each quarter, the Bank calculates the change in the pension liability as a result of changes in the discount rate, net of the change in the value of assets designated in advance for hedging these liabilities. The change in the net pension liability, after tax, is spread in a linear manner over four quarters, beginning in the quarter for which the calculation was made. The new method will be implemented starting on July 1, 2022 and will be in effect until the earlier of the two: a) The financial statements as at December 31, 2029 (inclusive) or b) The reporting date on which the average pension liabilities across the last four quarters will be lower than NIS 10 billion, linked to the CPI (from the known CPI as of July 1, 2022 to the known CPI on the relevant reporting date). At the same time, the Banking Supervision Department revoked its approval to measure the pension liabilities for regulatory capital purposes according to a moving average of market yields for a period of eight quarters ended on the relevant reporting date, which was in effect as of the financial statements as at June 30, 2016. In the transition to the new measurement system, a one-time adjustment was recorded in the amount of approx. NIS 1.4 billion between the regulatory capital and the accounting method in respect of the pension liabilities handled until the financial statements as of June 30, 2022 according to the previous method. For more information regarding the effect of the transition to the new method, please see Note 25B. in the financial statements as at December 31, 2022.

For more information on additional regulatory changes in the reporting period and anticipated changes regarding the measurement of capital adequacy, please see Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022.

### Regulatory Capital Structure

In May 2013, the Banking Supervision Department published the final directives for the implementation of Basel III in Israel, by amending Proper Conduct of Banking Business Directives Nos. 201-211 (hereinafter in this section - the "Directives"). The Directives went into effect on January 1, 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

Pursuant to the Directives, the Group's capital components for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1 capital, including Common Equity Tier 1 capital (CET1) and Additional Tier 1 capital.
2. Tier 2 capital.

The sum of these tiers is called the "capital basis for capital adequacy" or "regulatory capital" or "total capital".

### Common Equity Tier 1 capital

**Common Equity Tier 1 capital** includes the banking corporation's shareholders' equity, with the addition of some of the minority interests (non-controlling interests of consolidated subsidiaries) less goodwill, other intangible assets and regulatory adjustments as well as additional deductions.

In addition to these, the following are included: adjustments to Common Equity Tier 1 capital, which arise from the implementation of operational efficiency programs, measurement of the pension liabilities and assets designated for hedging, for regulatory capital purposes, as of July 1, 2022, as outlined above, as well as the application of various regulatory provisions, as outlined below.

A breakdown of the minimum Common Equity Tier 1 capital regulatory requirement appears in the section entitled "Capital Adequacy".

### Tier 1 capital

According to the Banking Supervision Department's directives, Tier 1 capital will include - in addition to CET1 capital - Additional Tier 1 capital, which is comprised of equity instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202.

To date, Israel has set no regulatory requirement regarding minimum Tier 1 capital ratio, and the Leumi Group has no Additional Tier 1 capital instruments.

### Tier 2 capital

Tier 2 capital includes equity instruments and the outstanding balance of the collective loan loss provision, subject to the ceiling prescribed by the directives.

Capital instruments which were included in Tier 2 Capital at December 31, 2013, were subject to transitional provisions and a recognition ceiling, which was amortized at the beginning of each year at 10% until January 1, 2022. As of January 1, 2022, these equity instruments are no longer recognized for regulatory capital purposes.

From the beginning of 2014, equity instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202 in order to be included in capital. The main criteria that the instrument must include are: (1) a mechanism for principal loss absorption through conversion into ordinary shares or amortization of the instrument when the banking corporation's Common Equity Tier 1 capital ratio falls below 5%; (2) a clause determining that, on the occurrence of the defining event for non-viability (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument shall be immediately converted to ordinary shares or written off.

For a description of the main features of issued regulatory capital instruments, please see the Bank's website at: <https://english.leumi.co.il>.

# Movement in the composition of the regulatory capital

	For the year ended December 31	
	2022	2021
	In NIS millions	
<b>Common Equity Tier 1 capital</b>		
Balance at beginning of period	43,117	39,262
Non-cash issue	91	-
Increase (decrease) in premium	2,645	-
Net income for the period less dividend	6,044	4,031
Retained earnings reserves in respect of associates	10	(6)
Unrealized gains (losses) from adjustments of available-for-sale securities	(2,822)	(275)
Capital reserve for stock-based compensation transactions	3	-
Capital reserves in respect of employee benefits	2,077	255
Increase in capital reserves (other and associates)	(2)	(22)
Effect of the efficiency plans	(57)	(182)
Other adjustments for employee benefits	(1,111)	(64)
Adjustments for current expected credit losses	(120)	-
Movement in the translation differences reserve in respect of subsidiaries	261	(37)
Minority interests	(300)	5
<b>Regulatory adjustments and deductions</b>		
Goodwill and intangible assets	(1,027)	(28)
Change in deferred taxes as a result of discounting a pension obligation according to a moving average	-	188
Accumulated gains/losses arising from changes in own credit risk for financial liabilities at fair value	(12)	(10)
Net increase in Common Equity Tier 1 capital	5,680	3,855
Balance as at end of period	48,797	43,117
<b>Tier 2 capital</b>		
Balance at beginning of year	10,148	12,297
Deduction of subordinated bonds pursuant to the transitional provisions	(224)	(2,284)
Issuing qualifying subordinated bonds	1,699	(82)
Minority interests	(81)	14
Movement in collective provision	478	203
Net increase (decrease) in Tier 2 capital	1,872	(2,149)
Balance as at end of period	12,020	10,148
<b>Total capital as at the end of period</b>	<b>60,817</b>	<b>53,265</b>

## Comments:

The Changes in Tier 1 Capital in 2022 arise mainly from the issuance of shares at the total amount of NIS 2.7 billion, and from earnings in the reporting period, net of NIS 6 billion in dividends, and, on the other hand, a decrease in respect of goodwill at the total amount of NIS 1 billion, and a NIS 2.8 billion loss on securities principal. In addition, there was a NIS 2 billion increase in employee benefits reserve, which was offset by NIS 1 billion as a result of regulatory adjustments in respect of the net quarters method.

The changes in Tier 2 capital arise mainly from the issuance of Series 405 + expansion and increase in the collective provision.

The changes in Tier 1 capital in 2021 stem mainly from net income for the period less a NIS 4,031 million dividend, NIS 275 million in unrealized gains from adjustments of available-for-sale securities, and a lower deduction from Tier 1 capital for deferred taxes in the amount of NIS 126 million. The change in Tier 2 Capital stems mainly from a NIS 2,366 million decrease in the regulatory capital instruments due to early repayment of Series 200+201, and a NIS 203 million increase in the collective provision.

### The banking corporation's approach to assessing capital adequacy

The Bank applies the provisions on measurement and capital adequacy based on the provisions of the Basel 3 Committee, as adopted by the Banking Supervision Department and as incorporated in Proper Conduct of Banking Business Directives Nos. 201-211 and the guidelines for the implementation thereof. The Basel Committee provisions require managing capital under three pillars:

- Pillar 1 - includes the method of calculating the minimum regulatory capital requirements in respect of credit risk, operational risk and market risk. In applying Pillar 1 requirements, the Bank applies the standardized approach to all of its exposures.
- Pillar 2 - the Internal Capital Adequacy Assessment Process (ICAAP) outlines the Bank's internal workflows for estimating the required capital in respect of all risks, including those not covered by Pillar 1, such as: credit concentration, the banking book's interest risk and pension risk. At the same time, a review process is being conducted by the Banking Supervision Department.
- Pillar 3 - market discipline. The Pillar determines the scope and manner of presenting the information regarding the Bank's risk exposure in its reports to the public. The Pillar requires disclosures included in the Risk Management Report.

The capital ratios are calculated as the ratio of capital to the risk-weighted assets. The Common Equity Tier 1 capital is calculated as the ratio between Common Equity Tier 1 capital and the risk-weighted assets, and the total capital ratio is calculated as the ratio of total capital to the risk-weighted assets.

### The Bank of Israel's capital adequacy targets

Under Proper Conduct of Banking Business Directive No. 201, "Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements", a large banking corporation whose consolidated balance sheet assets total at least 24% of the Israeli banking system's total balance sheet assets, is required to meet a Common Equity Tier 1 capital ratio of at least 10%, and a total capital ratio of at least 13.5%, beginning on January 1, 2017. This requirement applies to Leumi.

### Circular on Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) – Proper Conduct of Banking Business Directive No. 250

On March 31, 2020 the Bank of Israel published a circular entitled Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) (Directive No. 250) (hereinafter - the "Temporary Order"). According to the Temporary Order, a banking corporation whose consolidated total assets equal or exceed 24% of the banking system's total assets is required to maintain a Common Equity Tier 1 capital ratio to risk-weighted assets that shall not fall below 9% and a total capital to risk-weighted assets that shall not fall below 12.5% (in lieu of 10% and 13.5%, respectively, prior to the circular's publication date). The directive is applicable to Leumi.

According to a circular dated January 18, 2022, the capital targets easement shall be in effect until December 31, 2023, while the banking corporation's capital ratios shall be no less than the capital ratios on December 31, 2021, or the minimum capital ratios applicable to the corporation prior to the temporary order, whichever the lower.

Therefore, as of January 1, 2022, Leumi is subject to the minimum capital targets in effect prior to the temporary order which was issued for the purpose of coping with the coronavirus crisis - i.e. the CET1 capital ratio shall not fall below 10%, and a total capital ratio of no less than 13.5%. In addition to the Common Equity Tier 1 capital, there are capital requirements of 1% of the outstanding housing loans as of the financial statements dates, excluding housing loans for which a relief was granted as part of the temporary order for dealing with the coronavirus crisis.

In accordance with the circular published by the Banking Supervision Department on September 30, 2021, as of October 1, 2021, the easement remains in effect only in respect to the capital requirement for housing loans not intended for the purchase real estate properties (all-purpose loans). Accordingly, the additional capital requirement for housing loans, as at December 31, 2022, is 0.21% in terms of CET1.

Accordingly, the minimum capital requirements applicable to the Bank as of December 31, 2022 are 10.21% for Common Equity Tier 1 capital ratio (including capital requirement for outstanding housing loans) and 13.50% for total capital ratio.

Regarding the leverage ratio, according to the temporary order for coping with the coronavirus crisis, a banking corporation whose total consolidated on-balance-sheet assets constitute at least 24% of the Israeli banking system's total assets shall have a consolidated leverage ratio of no less than 5.5% (in lieu of 6% previously). On May 15, 2022, a circular amending the temporary order was published, according to which the easement shall be extended until December 31, 2023. A corporation which will utilize the easement until that date will be required to once again meet the required leverage ratio that was in place prior to the temporary order in two quarters' time, by June 30, 2024. In addition, using the easement will not prevent the dividend distribution, subject to an overall capital planning aimed at reverting to the required leverage ratio.

#### [The Bank's capital planning and capital adequacy targets](#)

The Leumi Group's capital planning reflects a forward-looking view of its risk appetite and profile, business strategy and resulting capital adequacy. Capital planning is approved by the Bank's management and Board of Directors and takes into account the various P&L centers of the Group and other factors that affect the Bank's compliance with the capital requirements, such as profit forecasts, changes in other comprehensive income, regulatory adjustments, the effect of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratios forecast is also subjected to various sensitivity tests and stress scenarios.

The Group's policy, which was approved by the Board of Directors, is to maintain a capital adequacy level that is higher than the minimum threshold set by the Bank of Israel from time to time and no less than the rate of capital required to cover the risks as assessed using the ICAAP process. In addition, the Group has set capital targets in case of a stress scenario event. For more information about the ICAAP process and the use of stress tests, see Part 2 of this report.

Under the regulatory review process, the Banking Supervision Department instructed the banks to set internal capital targets that would match each Bank's risk profile. As a result, the Bank's Board of Directors approved an increase in the Bank's internal Tier 1 capital threshold to 10.5%, as of December 31, 2017.

Upon the outbreak of the coronavirus crisis, the Bank's board of directors decided to decrease the Common Equity Tier 1 internal capital target to 9.5%. Due to the expiration of the capital target easements, the Bank's Board of Directors decided, on March 8, 2022, to revise the internal CET1 capital, raising it to 10.5% as was prior to the coronavirus crisis.

For more information, please see the immediate report dated March 9, 2022 (Ref. No. 2022-01-027670).

#### [Dividend Distribution Policy](#)

On March 6, 2019, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50% of the Bank's net income in accordance with the Bank's financial statements for the previous quarter. This is subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and the directives of the Bank of Israel.

On March 13, 2023, the Board of Directors approved a dividend distribution in the amount of approx. NIS 698 million, which constitutes approx. 30% of the net income for the fourth quarter of 2022. The dividend amount approved amounted is 45.20 agorot p.v. per share of NIS 1 par value. The Board of Directors designated March 27, 2023 as the record date for purposes of dividend payment and April 4, 2023 as the payment date.

#### [Details on paid dividend](#)

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
August 12, 2021	September 2, 2021		630
November 15, 2021	December 12, 2021		1,367
March 9, 2022	April 6, 2022	40.48	588
May 24, 2022	June 15, 2022	22.14	322
August 16, 2022	September 6, 2022	25.82	399
November 29, 2022	December 19, 2022	23.08	356

#### Adjustments to CET1 capital:

##### Measurement of the employee benefits liability and hedging assets

For the change in the manner of measuring the pension liabilities to calculate regulatory capital adequacy, see the Capital Adequacy Structure earlier in this chapter.

For more information, please see the immediate report dated September 6, 2022 (Ref. No. 2022-01-113977).

For more information regarding the discount methodology, please see the section entitled "Critical Accounting Policies and Estimates, Controls and Procedures" in the Report of the Board of Directors and Management as at December 31, 2022.

##### Relief for Operational Efficiency Plans

In 2016 and 2017, the Banking Supervision Department published letters entitled "Operational Efficiency of the Banking System in Israel" - workforce and real estate. According to the letters, a banking corporation which meets the terms and conditions prescribed, will be granted a relief, according to which it may spread the effect of the efficiency plans on regulatory capital, on a straight-line basis, over a period of five years.

As part of the understandings regarding the special collective agreement signed with the Workers' Union in July 2019, the Bank's Board of Directors approved a voluntary retirement plan, which amounted to NIS 167 million (after tax). As of December 31, 2022, 70% of the plan's costs are attributable to regulatory capital.

##### Regulatory and Other Changes in Measuring the Capital Requirements

##### Developments in measuring capital adequacy in the directives of the Basel Committee on Banking Supervision

In 2017, the Basel Committee on Banking Supervision completed its revision of the overall Basel II capital adequacy framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. The application of the various standards included in the revision will be postponed by one year and will begin on January 1, 2023. The European Union is expected to postpone the application until 2025.

In accordance with the policy for the adoption of accepted international standards, the Banking Supervision Department is adopting the Basel Committee provisions from 2017 on the calculation of capital requirements in respect of operational risk. On December 29, 2022, the Banking Supervision Department published a draft update to the Proper Conduct of Banking Business Directive 206 "Measurement and Capital Adequacy - Operational Risk". The draft established an updated definition of the calculation of the capital allocation in respect of operational risk so that it is based, among other things, on the business indicator components stipulated in the draft and on the internal loss multiplier based on the average historical losses of the banking corporation. Implementation of the Directive will become effective on January 1, 2026.

##### Directives pertaining to the attribution of capital for derivative financial instruments

On December 1, 2021, the Banking Supervision Department published a circular revising directives on capital allocation for derivative financial instruments (application of the provisions of Proper Conduct of Banking Business Directives Nos. 203A and 208A), in an effort to adjust the directives of the Bank of Israel to the revised Basel Committee provisions regarding counterparty credit risk.

On March 15, 2022, the Banking Supervision Department published a circular entitled "Treating Counterparty Credit Risk", which includes revisions and various clarifications (FAQ) regarding the implementation of Directive No. 203A.

On April 7, 2022, a circular was published revising Proper Conduct of Banking Business Directive No. 203, "Measurement and Capital Adequacy - The Standardized Approach - Credit Risk" and Directive No. 218, "Leverage Ratio". According to the revisions, the calculation of the exposure will be made according to Directive No. 203A.

As of July 1, 2022, the Bank applies Directive No. 203A, Treating Counterparty Credit Risk, as well as revised Directives Nos. 203 and 218. The effect of the application of the said provisions as at the transition date, led to a 0.2% in the Common Equity Tier 1 capital ratio, 0.26 in the total capital ratio and 0.11 in the leverage ratio.

The application date of Directive 208A, Value Adjustment for Credit Risk, will be January 1, 2025.



Circular entitled “Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses”, Proper Conduct of Banking Business Directive No. 299 and circular entitled “Expected Loan Losses from Financial Instruments”

As of January 1, 2022, the Bank applies the transitional provisions published by the Banking Supervision Department - Regulatory Capital - Effect of Application of GAAP on current expected credit losses as of December 1, 2020, as well as additional adjustments to Proper Conduct of Banking Business Directives, as a result of the new rules on expected credit losses. Among other things, since January 1, 2022, the Bank is applying Proper Conduct of Banking Business Directive No. 202, “Capital Measurement and Adequacy - Regulatory Capital”, and deducts from Common Equity Tier 1 amounts to cover for housing loans classified over time as non-performing.

According to the transitional provisions published by the Banking Supervision Department, and since following the first-time application there was a decrease in the Common Equity Tier 1 capital of the Bank, the Bank partially added to the Common Equity Tier 1 capital 75% of the decrease in the Common Equity Tier 1 capital as of the first-time application (as a result, at the beginning of each year from the first-time application, the addition to the Common Equity Tier 1 capital will decrease by 25%, until 0% is added on January 1 of the fourth application year).

For the effect of the application of the new directives on the Bank’s financial statements, please see Note 1.Y. in the financial statements as at December 31, 2022.

Circular amending Proper Conduct of Banking Business Directive No. 203, “The Standardized Approach - Credit Risks”

On May 25, 2022, the Banking Supervision Department published a circular to the amendment to the Proper Conduct of Banking Business Directive No. 203, “The Standardized Approach - Credit Risk”. Under the circular, the weight of the risk attributed to loans designated for the purchase of land for development or construction will be raised to 150% at an LTV rate exceeding 80% of the purchased property, excluding loans to purchase agricultural or forested land with no planning or rezoning prospects or loans for the purchase of land for the self-use of the borrower, who is not classified in the construction and real estate sector according to the sectoral classification in Section 7 of the Banking Supervision Reporting Directive 831 - “Total Credit Risk by Economic Sector”. The revisions in the circular are in effect from June 30, 2022, as clarified by the Banking Supervision Department, the implementation will be spread quarterly until the quarter ending on June 30, 2023, in which the capital requirement will be fully reflected.

Following on the above circular, on January 25, 2023, the Bank of Israel distributed a revision to the central Q&A document regarding the capital requirements in the standard approach and in the internal models approach to credit risks. The Bank will implement the aforementioned updates of the Banking Supervision Department in its financial statements as of December 31, 2022. The effect of the implementation on the CET1 capital is a decrease by a rate of 0.15%. This decrease will be spread until the quarter ended June 30, 2023.

Following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:

- Change in the amount of risk-weighted assets – Leumi’s risk-weighted assets – amounted to NIS 425.6 billion as at December 31, 2022. Each NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio by approximately 0.02% and the total capital ratio by approximately 0.04%.
- Change in Common Equity Tier 1 capital - Common Equity Tier 1 capital was NIS 48.8 billion as of December 31, 2022. A NIS 100 million decrease in CET1 capital will decrease the CET1 capital by 0.02% and total capital ratio by 0.03%.
- Change in the exchange rate - a 1% devaluation of the exchange rate of the shekel against all currencies will reduce the Common Equity Tier 1 capital and the total capital ratio by approximately 0.02%.
- A 1% increase in the risk-free interest rate curve across all currencies for the regulatory capital exposure signifies a 0.08% decrease in the Common Equity Tier 1 capital ratio and total capital ratio.

The above information regarding capital adequacy and its management refers to the Bank’s future activities and constitutes “forward-looking information”. For the meaning of the term, please see under “Forward-Looking Information”.

## Part 4 - Leverage Ratio

Expressed as a percentage, the leverage ratio is defined as the measured regulatory capital divided by the measured exposure. The regulatory capital for the purpose of leverage ratio measurement is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive No. 202, according to regulatory adjustments for calculation of capital. A banking corporation's measured exposure is the sum of the balance sheet exposures, exposures to derivatives, exposures to securities financing transactions and off-balance sheet items. The leverage ratio metric complements the capital ratio and constitutes yet another constraint on the banking sector's leverage level.

The leverage ratio may be affected by changes in the Bank's regulatory capital. Among other things, when calculating the leverage ratio, the effect of the efficiency plan and adjustments from the change in the measurement method of pension liabilities net were taken into account for the purpose of calculating the regulatory capital as of July 1, 2022, as explained above.

### Comparison of Accounting Assets vs. Leverage Ratio Exposure Measure (LR1)

		December 31	
		2022	2021
		In NIS millions	
1	Total assets according to the consolidated financial statements	688,265	656,454
	Adjustments for:		
4	Derivative financial instruments	12,211	(1,515)
6	Off-balance sheet items	63,053	52,789
7	Other	3,366	3,397
8	Exposure for leverage ratio purposes	766,895	711,125

## Leverage ratio (LR2)

Item	December 31	
	2022	2021
In NIS millions		
<b>Balance sheet exposures</b>		
Balance sheet assets (excluding derivatives and securities financing transactions but including collateral)	649,992	635,352
1		
2 Amounts for assets deducted for the purpose of determining Tier 1 capital	(1,219)	(178)
<b>Total balance sheet exposures</b> (excluding derivatives and transactions to finance securities)	648,773	635,174
3		
<b>Exposures for derivatives</b>		
4 The replacement cost associated with all derivative transactions	14,825	1,776
Additional amounts in respect of potential future exposure associated with all derivative transactions	24,024	16,768
5		
7 Deductions of debtors' assets in respect of variable cash collateral provided in derivative transactions	-	(6,032)
11 <b>Total exposures for derivatives</b>	38,849	12,512
<b>Exposures for securities financing transactions</b>		
Gross assets for securities financing transactions (excluding recognition of offsets), after adjustments for transactions accounted for as an accounting sale	1,397	2,473
12		
15 Exposures for securities financing transactions as agent	14,824	8,177
16 <b>Total exposures for securities financing transactions</b>	16,221	10,650
<b>Other off-balance-sheet exposures</b>		
17 Total off-balance-sheet exposure at a gross nominal value	171,946	148,828
18 Adjustments for conversion to credit-equivalent amounts	(108,894)	(96,039)
19 <b>Off-balance sheet items</b>	63,052	52,789
<b>Capital and total exposures</b>		
20 <b>Tier 1 capital<sup>(a)</sup></b>	48,797	43,117
21 <b>Total exposures<sup>(a)</sup></b>	766,895	711,125
<b>Leverage ratio</b>		
<b>Leverage ratio in accordance with Proper Conduct of Banking Business Directive No. 218</b>	6.36%	6.06%
22		

(a) These data include adjustments in respect of the efficiency plan in accordance with the Banking Supervision Department's directives. For more information on the effect of the transitional provisions and adjustments in respect of the efficiency plans, please see the section entitled "Relief in respect of Operational Efficiency Plans" in Part 3 of the Report.

In addition, in the calculation of the leverage ratio, adjustments in respect of the implementation of the new measurement method relating to certain actuarial liabilities were taken into account.

For more information on capital adequacy and leverage, please see Note 25B. in the financial statements as at December 31, 2022.

For more information about adjustments to the temporary order regarding the leverage ratio, please see the section titled Adjustments to Proper Conduct of Banking Business Directive No. 250 above.

The leverage ratio as of December 31, 2022 was 6.36%, a 0.3% decrease compared with December 31, 2021.

The increase in the leverage ratio arises from a significant increase of NIS 5.6 billion in Tier 1 capital. On the other hand, there was a NIS 55 billion increase in exposures, which arises from a NIS 13 billion increase in the balance sheet exposure, a NIS 26 billion increase in exposure to derivatives as a result of the implementation of directive 203A, a NIS 10 billion increase in off-balance sheet exposures, and a NIS 6 billion in exposures to securities financing transactions.

## Part 5 - Credit Risk

### General Qualitative Information about Credit Risk (CRA)

Credit provision is a core activity of the Bank and Group and is conducted in a decentralized manner by various business lines.

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.

Activities which increase credit risk include balance sheet credit risk and off-balance sheet credit risk, such as: loans to the public, loans to banks, loans to governments, deposits with banks, investments in bonds and exposures for activity in derivatives.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management", Proper Conduct of Banking Business Directive No. 311A "Consumer Credit Management" and Proper Conduct of Banking Business Directive No. 314, "Sound Credit risk Assessment and Valuation for Loans", including the responsibility of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department's directives by implementing corporate governance which includes three "lines of defense".

As part of its credit risk management, the Bank monitors the quality of its credit portfolio, including the overall adequacy of its loan loss provision to cover losses embodied in the loan portfolio; the credit portfolio concentration level and activity by main products, such as: credit granted to the construction and real estate sector; housing loans; credit granted to private individuals; housing loans and leveraged credit. In addition, as part of an organizational concept for comprehensive management of credit risk, climate and environmental risk and the extent of their impact on the risk profile must be taken into account. The Bank formulated a multi-year plan for the construction and assimilation of processes that will enable the identification, measurement, evaluation, monitoring, reporting and control of these risks, including ways of managing them and reducing their impact on the credit exposures. For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2022.

A review of the exposure to credit risks and a snapshot of meeting the regulatory and internal restrictions is presented to Management and the Board of Directors at least once every quarter.

The Bank's credit policy paper constitutes a key element in the management of the Bank's credit, and is derived from the Group's overall risk appetite as reflected in the multi-year work plans, strategy and the boundaries of its business focal points. The paper also includes a set of regulatory and internal credit restrictions, alongside the existing internal procedures for identifying, measuring, monitoring, supervision and control over the credit risk. Credit policy and existing internal procedures which relate to the credit risk inherent in all of the Bank's activities and applies to each loan as well as to the entire loan portfolio.

The guiding principles of the Bank's credit policy are as follows:

- Maintaining proper conduct: Ethics, fairness, fair disclosure and transparency, including compliance with regulatory provisions.
- Focusing the exposures on activities for which the Bank has the expertise needed to estimate and manage the risks embodied therein.
- Dividing customer care between various business lines according to various criteria.
- Separating between the function assuming the risk and the independent function performing control over the risk and managing the risk.
- Any function in the Bank which gives rise to credit risk exposure must be aware of the risks involved in his/its purview and assume responsibility for their ongoing management, including in terms of compliance.
- A comprehensive view at the customer or group level, including the level of credit risk in accordance with Proper Conduct of Banking Business Directive No. 313.

- Ongoing and periodic monitoring of credit exposures and compliance with restrictions (internal and regulatory) in order to identify weaknesses as early as possible and prepare accordingly.
- Quantitative assessment of credit risk, while assigning each customer a credit risk rating.
- Developing an outline which distinguishes between types of activities and economic sectors, including categories defined by various risk levels.
- Underwriting considerations include, among other things:
  - Characteristics a borrower is required to have for credit approval purposes: evaluation of repayment capacity; internal credit rating; business experience; financial data and various prerequisites for credit provision (e.g., LTV ratio, maximum exposure and acceptable collateral) and in relevant cases - information from the Central Credit Register.
  - The credit authority hierarchy defines who is authorized to approve exceptional credit applications.
- Employees involved in the field of credit undergo training and instruction on credit.

As part of the credit risk management, on a regular basis, adjustments are made to the credit risk management and risk appetite, as necessary. In 2022, there were no material changes in the corporate governance structure related to credit risk.

#### The subsidiaries' credit policies

A group-level credit policy paper, which serves as a master document outlining the governing principles for the Bank's policy framework both in Israel and for its UK office. This policy is primarily based on the Bank's policy in Israel.

This credit policy paper based on the principles set forth in the Group policy paper and approved by the subsidiary's Board. The policy papers and their conformance to the Group's policy are also reviewed by the Risk Management Division in Israel.

As with the parent company, the credit policy of Bank's UK office is based on the credit policy of guiding principles for underwriting and credit management at the individual customer level as well as on setting boundaries and managing the segments at the aggregate level.

#### The Corporate Governance Structure and Responsibility for Credit Risk Management

In addition to information regarding the corporate governance structure of the risk management at the Bank - which is described in the section entitled "Additional Information on Risk Exposure and Assessment" - following is additional information regarding credit risk management:

The process of controlling and managing credit risks is carried out by three separate "lines of defense".

#### First line of defense - the business lines

The first line of defense includes the business units operating in the various business lines and dedicated units handling credit risks in the business unit, including dedicated units for borrowers in difficulty ("troubled debt center", which reports to the Banking Department and the Special Credit Department, under the Business Department).

#### Second line of defense - The Risk Management Division and the Accounting Department

**The Risk Management Division includes three units responsible for handling credit risk, according to their respective purviews:**

1. The **Credit Risk Department** has overall responsibility - subject to regulatory requirements - for the specific (transaction-level) assessment, including credit classification and provisions, serving as a professional anchor for handling of enterprise-wide credit risk policy and management (development of the credit policy, including credit authorizations, setting internal boundaries and risk appetite, analysis of the credit portfolio risk at the Group level, supervision over control of credit risk management in the Bank's foreign office, and credit stress scenarios).
2. The **Market, Model and ERM Risks Department** bears the overall responsibility for checking the validity and/or the validation of internal models for credit risk at the Bank and the Bank's UK office.

3. The **Compliance Department** serves as a professional anchor for determining the outline for examining compliance aspects related to credit risks and anchoring them in the credit policy as well as handling presentations to the Credit Committee.

The **Accounting Department** serves as the professional anchor for understanding and analyzing novel issues and relevant new regulation. In this context, in complex cases, the Accounting Department serves as a professional source of knowledge for reaching decisions about provisions and classifications of credit.

#### Third line of defense - the Internal Audit Division

The Internal Audit Division is responsible for conducting independent, objective audits while challenging the controls, processes and automated systems in the banking corporation. Audits are usually performed retrospectively on the first and second lines of defense, ensuring implementation of the instructions of management and the Board of Directors.

#### Credit Risk Management Tools - Risk Measurement Systems

To manage credit risk, quantitative models are used to internally rate borrowers' risk and evaluate and monitor risk at the portfolio level, with the internal rating of borrowers forming a key layer in the decision-making and credit-pricing processes and in monitoring the portfolio's quality over time.

The Bank uses two main tools to assign internal ratings to customers:

- A rating system for retail customers, which is based, inter alia, on the characteristics of the customer's activity in the account over time.
- A rating system for housing loans customers, which is based, among other things, on the customer's characteristics, and on the activity of the customer over the term of the loan.
- A rating system designed for business-commercial borrowers, which is based on structured expert questionnaires.

The models used to perform the ratings in the said systems are monitored and validated on a regular basis.

The risk profit at the Group's total portfolio level is monitored by the Credit Risk Department. A quarterly exposure report that details trends and changes as well as details of compliance with internal and regulatory limits are brought before the Bank's management, and before the Credit Committee and Risk Committee of the Board of Directors. The above is in addition to conducting various other segment analyses and stress scenarios.

#### Macroeconomic effects

The Bank's activity is affected, among other things, by macroeconomic developments in the local business environment and the slowdown in global economic activity. The Bank monitors - on a regular basis, across all business lines - risk focus areas and also regularly examines the effect of the increase of the interest rate in the economy on portfolio credit risk, including through various sensitivity scenarios.

As of the date of publication of the Report, the economic activity in the local economy continues to grow, but at a slower pace. The slowdown is reflected, among other things, in a real decrease in the pace of new apartment sales, as well as in the consequences of the increase in the interest on borrowers, with an emphasis on leveraged borrowers, private individuals and on economic sectors with considerable credit activity.

Subsequent to the reporting period, public events began - legislative and social - regarding which there is considerable uncertainty as to the manner of their development and impact on the Israeli economy in the medium and long term, and as a result - on the bank's results. The said events may have an adverse effect on the Israeli economy and as a result, on the Bank's performance. For now, changes are evident in Israel's financial markets and in the pricing of Israeli financial assets in the global markets, including the weakening of the exchange rate of the shekel against the currency basket, the dollar and the euro, the increase in Credit Default Swaps (CDS) of the State of Israel, which are traded across the world, and very high volatility in leading indices in the Tel Aviv Stock Exchange.

The military conflict between Russia and Ukraine continues, affecting commodity and energy prices in Europe, but to a decreasing extent. As of now, the direct effect on Leumi's loan portfolio is immaterial, but its development should be followed, with emphasis on supply chain delays.

The tightening of financial conditions, as a result of measures taken by the central banks and changes in the financial markets, along with the economic effects of the Russia-Ukraine war, have already resulted in a considerable reduction in growth estimates and forecasts for 2023 by large international entities, such as the OECD.

The coronavirus crisis - exposure to risks resulting from morbidity surges occurring from time to time is still possible, but is substantially lower than in 2020-2021. In some sectors that were significantly affected by the crisis (with emphasis on foreign hotels and aviation) there are customers who have not yet fully recovered.

As of January 1, 2022, the Bank is applying, for the first time, new rules regarding Current Expected Credit Loss provisions (CECL). As a result of applying the new rules, the Bank updated and adjusted the loan loss provision methodology, as outlined in Note 1.X.1. in the financial statements as at December 31, 2022.

The loan loss expense in 2022 was approx. NIS 498 million, of which an income of NIS (430) million of the loan loss income was attributed to the specific provision and a NIS 928 million expense - to the collective provision. The collective expense in 2022 is calculated as aforementioned according to new accounting principles - CECL and is therefore affected by them. In addition, the collective expense in 2022 was affected mainly by the growth in the credit portfolio and as a result of the worsening macroeconomic forecasts described above. The loan loss provision is an estimate based on significant judgment, which was applied in 2022 in a changing environment.

The loan loss provision methodology is comprised, inter alia, of past experience, a qualitative level - which includes a comprehensive framework for qualitative adjustments (Q factor) and macroeconomic forecasts, and naturally involves significant judgment.

Due to the uncertainty currently prevalent in the markets and the effects it may have on the condition of households and businesses in Israel, as described above, the provision may change in the future due to developments.

The information in this section constitutes "forward-looking information". For the meaning of the term, please see the section entitled "Forward-Looking Information".

#### Changes in debt covenants as part of coping with the coronavirus crisis

The Bank has applied the coronavirus guidance of the Bank of Israel and adopted the unified outlines published by the Bank of Israel regarding changes in the loan terms, especially by way of loan deferment for private individuals and business customers. As of the report date, those outlines expired.

As at December 31, 2022:

Approximately 96% of all frozen outstanding mortgages have resumed regular payments and approximately 0.5% of the outstanding mortgages are under moratorium.

The Bank is monitoring the credit risk of its customers, especially those who have deferred their loan payments, in order to identify on time any credit deterioration, including potential exposure to loss.

For more information and details regarding developments in the credit portfolio and the qualitative indicators characterizing the portfolio, please see below in this section.

Outstanding debts in Israel the covenants of which were amended as part of dealing with the coronavirus from March 1, 2020 to December 31, 2022, which were not classified as restructuring of troubled debt following the deferment

More information about outstanding loans to the public for which deferment was granted								More information about deferred debts by deferment period <sup>(a)</sup>		Debts whose deferment term has ended, as of the reporting date		
Deferred debts as of the reporting date				Non-troubled debts				Non-troubled debts in respect of which cumulative deferral has been made				
Outstanding loans for which payments were deferred	No. of loans <sup>(b)</sup>	Amount of payments deferred in practice	Troubled debts	Debts without credit performance rating	Outstanding performance loans in arrears of 30 days or more	Non-delinquent debts with credit performance rating	Total non-troubled debts	More than 3 months and up to 6 months	More than 6 months	Outstanding loans to the public	Of which: in arrears of 30 days or more	
In NIS millions												
Housing loans as of December 31, 2022	642	1,517	110	31	607	-	4	611	3	608	15,430	202

(a) The deferment period is the cumulative period of deferments granted for a debt from the beginning of the coronavirus period and does not include deferment for which the borrower is eligible under any law.

(b) The number of loans is presented separately.

The table includes deferred outstanding debts for housing loans in Israel only. The balance of outstanding debts in the other operating segments is not material.

#### State-backed loans (the Coronavirus Fund)

Against the background of the coronavirus outbreak, the Bank signed agreements with the state (which were revised from time to time) for extending state-backed loans as part of the "Coronavirus Funds", the purpose of which is to aid businesses (small, mid-sized and large), which encounter cash flow difficulties as a result of the crisis. The loan covenants were determined by the Ministry of Finance and were uniform for all borrowers.

Obtaining guarantees from the State has helped the Bank support the needs of its customers and positively contributed to the quality of the Bank's loan portfolio.

On April 30, 2022, the State decided to end the activity of the coronavirus fund (General Track and High-Risk Track). Applications submitted until April 30, 2022 were treated as usual. The treatment of debt arrangements and forfeitures continues as usual in accordance with the provisions of the agreement.



Information regarding state-backed credit granted as part of the handling of the coronavirus

	Outstanding debt as at December 31	
	2022	2021
Customer classification	In NIS millions	
Small- and micro-businesses	2,591	3,636
Mid-sized businesses	836	1,190
Corporations	106	307
Total	3,533	5,133

Comments:

1. Customers are classified according to regulatory operating segments.
2. The Bank granted loans totaling NIS 6.8 billion.

## Credit Quality of Assets (CR1)

	A	B	C	D
	<b>December 31, 2022</b>			
	Gross balances <sup>(a)</sup>			
	Non-performing or in arrears of 90 days or more	Other	Provisions for loan losses or impairments	Net balances (A+B+C)
	In NIS millions			
1 Debts, excluding bonds	1,983	396,008	(5,003)	392,988
2 Bonds	-	65,373	(37)	65,336
3 Off-balance sheet exposures	154	170,672	(585)	170,241
4 Total	2,137	632,053	(5,625)	628,565

	A	B	C	D
	<b>December 31, 2021</b>			
	Gross balances <sup>(a)</sup>			
	Non-performing or in arrears of 90 days or more	Other	Provisions for loan losses or impairments	Net balances (A+B+C)
	In NIS millions			
1 Debts, excluding bonds	3,534	361,119	(4,515)	360,138
2 Bonds	-	69,970	-	69,970
3 Off-balance sheet exposures	171	149,528	(469)	149,230
4 Total	3,705	580,617	(4,984)	579,338

(a) In accordance with the accounting values reported in the financial statements of balance-sheet items and off-balance-sheet items creating credit risk exposure in accordance with Proper Conduct of Banking Business Directive No. 203.

## Changes in the inventory of debts classified as non-performing (CR2)

For information about balance of and changes in non-performing debts, please see the Credit Risks chapter in the Report of the Board of Directors and Management as of December 31, 2022, and Note 30 to the financial statements as of December 31, 2022.

## Additional Disclosure Related to the Credit Quality Of Assets (CRB)

The Bank implements the Reporting to the Public Directives on non-performing debts, credit risk, and provisions for expected credit losses.

The treatment of these directives is regulated by individual procedures and guidelines for the relevant parties. The following paragraphs outline only certain key aspects in this area with respect to the classification of debts and determining loan loss provision.

### Non-performing debt

Debt is classified as non-performing when the Bank is unlikely to collect all the amounts it is due under the contractual terms of the debt agreement, based on information and current status, such as: The extent of arrears, the lender's financial position and solvency, assessment of the primary repayment source for the debt, status of the collateral, financial position of the guarantor, etc.

A debt that was reviewed on an individual basis is classified as non-performing whenever the principal or interest thereof has been in arrears of 90 days or more, unless it is both well secured and under collection proceedings.

An off-balance-sheet credit exposure will be classified as non-performing if the liability for this debt is expected to materialize and the resulting balance sheet debt should be classified as non-performing.

### Debt in arrears

The delinquency status of a debt is determined according to the contractual repayment terms and conditions. Following are three possible delinquency situations:

1. Delinquency due to failure to repay a loan according to the contractual repayment terms and conditions.
2. An overdrawn current account.
3. Low turnover - as long as the account has not been credited with amounts needed to cover the debt within the defined period, even if the debt is within the credit line.

Rules for classifying debt according to the delinquency period:

- A specific debt examined and found to be in arrears of 90 days or more shall be classified as non-performing, unless it is adequately secured and under collection proceedings.
- A debt examined on a collective basis shall be classified according to the following rules:
  - Special mention debt - Debt in arrears of 70-89 days or according to certain predefined negative symptoms which are automatically flagged.
  - Substandard debt - Debt in arrears of 90-149 days or according to certain predefined negative symptoms which are automatically flagged.
  - Debt in arrears of 150 days or more will be fully accounted for as a provision and will undergo an accounting write-off.

### Credit exposures in arrears over 90 days which are not considered non-performing

According to the directives of the Bank of Israel, in the situations outlined below, credit exposures delinquent in arrears of over 90 days which are not considered non-performing:

- Credit that is assessed on a collective basis will be classified as "substandard" if it is delinquent for 90 days or more and will undergo an accounting write-off after being in arrears of 150 days.
- Credit examined on a specific basis which is well-secured and under collection proceedings.

### Restructured troubled debt

A formal restructuring of a debt is considered a troubled debt restructuring if the Bank - for economic or legal reasons related to the debtor's financial difficulties - granted a concession by changing the terms of the loan to alleviate the burden of the debtor's near-term cash payments or by accepting other assets in satisfaction of the debt. In order to determine whether a debt restructuring carried out by the Bank constitutes restructuring of troubled debt, the Bank carries out a qualitative assessment of the debt restructuring's terms and circumstances with the aim of determining whether (1) the borrower has financial difficulties and (2) the Bank granted a concession to the borrower as part of the debt restructuring.

As from January 1, 2022, pursuant to the Bank of Israel's circular on expected credit losses (No. 2634-06 of November 29, 2021), a debt, the terms of which were changed in a restructuring, may be classified as performing/non-performing.

Changes in the terms of the restructured debt shall not require the classification of the debt as non-performing, when:

- The restructuring improves the chances of collection within a reasonable amortization schedule, and based on an up-to-date and well based credit analysis.
- There is a good repayment history of at least 6 months.

Differences between the definitions of delinquency/arrears and failure for accounting and regulatory purposes

Following are the differences between the definition of "arrears" or "non-performing" and "debt in arrears" or "debt in arrears" for accounting purposes and the definition of "loans in arrears" or "delinquent loans" for the purpose of measuring capital adequacy (regulatory purposes):

1. Debt is defined as "in arrears" or "delinquent" for accounting purposes after 30 days of arrears, while for capital adequacy purposes, "loans in arrears" or "delinquent loans" are defined as such only after having been in arrears/delinquent for 90 days;
2. A debt that has been restructured and classified as a performing debt, shall be classified as problem/good in accordance with the provisions of the Bank of Israel and Leumi's classification procedures, while for the purpose of measuring capital adequacy, such a debt will not be considered a "defaulted loan".
3. Off-balance sheet credit is classified as troubled debt if the materialization of the contingent liability is defined as "possible" and if the debts that may be recognized as a result of the materialization of the contingent liability may be classified as "troubled debt". On the other hand, off-balance sheet exposures will be classified for capital adequacy purposes consistently with the classification of the same borrower's balance sheet exposures.

For more information about the credit risk metrics, please see under "Credit Risks" in the Report of the Board of Directors and Management.

#### Impairment of securities

At each reporting period, the Bank assesses the need to record losses due to other-than-temporary impairment of the securities comprising the available-for-sale portfolio and the held-to-maturity portfolio. The assessment is carried out when there are indications that the value of the securities may have been impaired. The criteria for determining whether an impairment is other than temporary are described in Note 1I to the financial statements as of December 31, 2022.

#### Loan loss provision

A loan loss provision is made in accordance with one of the following methods:

- Specific provision - Non-performing debts, excluding housing loans, are debts which the Bank believes do not share the risk characteristics of performing debts and therefore estimates the provision for them on a specific basis.

With regards to commercial debt classified as non-performing, the outstanding contractual balance of which (without deducting: charge-offs not involving legal waiver, deferred interest, loan loss provisions and collateral) is NIS 1 million or more, the provision is measured based on the present value of the expected cash flow discounted by the original effective interest rate of the debt, or when the debt is a collateral-dependent debt or when an asset is expected to be foreclosed, according to the fair value of the collateral that was pledged to secure that loan (net of costs to sell).

- Collective provision - for other debts that do not meet the abovementioned criteria for specific assessment.

For more information, please see Note 1H. in the financial statements as at December 31, 2022.

## Credit Risk by Economic Sector

December 31, 2022										
Total credit risk <sup>(a)(i)</sup>			Debts <sup>(b)</sup> and off-balance sheet credit risk (net of derivatives) <sup>(c)</sup>							
	Credit performance rating <sup>(e)</sup>	Problem <sup>(f)</sup>	Total <sup>1</sup>	<sup>1</sup> Of which:		Non-performing <sup>(h)</sup>	Loan losses <sup>(d)(i)</sup>			
				Debts <sup>(b)</sup>	Problem <sup>(f)</sup>		Expenses (income) in respect of loan losses	Net accounting write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity in Israel										
Commercial - Public										
Agriculture	2,630	2,501	114	2,629	2,333	114	36	1	-	(138)
Mining and quarrying	758	758	-	731	531	-	-	20	-	(33)
Manufacturing	35,409	34,410	903	34,162	20,750	903	143	106	(24)	(471)
Construction & real estate - Construction <sup>(g)</sup>	102,609	101,088	1,259	102,584	53,883	1,259	154	217	(2)	(1,041)
Construction & real estate - Real estate activity	45,236	45,000	151	44,460	39,249	151	67	(188)	(122)	(884)
Power and water supply	9,557	9,515	41	9,170	5,093	41	8	12	16	(69)
Commerce	39,513	38,946	545	39,023	31,932	545	128	148	51	(501)
Hotels, accommodation and dining services	4,325	3,916	148	4,295	3,689	148	57	(35)	8	(45)
Transportation and storage	9,592	9,240	314	9,511	7,760	314	124	(10)	56	(181)
Information and communication	6,103	5,765	146	5,656	3,223	146	114	(97)	(29)	(64)
Financial services	45,990	45,916	73	37,465	28,406	73	54	64	(15)	(219)
Business and other services	13,330	13,015	257	13,203	9,359	257	82	10	5	(350)
Public and community services	11,284	11,209	62	11,269	9,182	62	14	16	(2)	(176)
Commercial - total	326,336	321,279	4,013	314,158	215,390	4,013	981	264	(58)	(4,172)
Individuals - Housing loans	124,827	123,158	626	124,827	119,690	626	559	112	17	(419)
Private individuals - other	43,572	41,326	768	43,562	30,370	768	222	111	129	(732)
Total loans to the public - activity in Israel	494,735	485,763	5,407	482,547	365,450	5,407	1,762	487	88	(5,323)
Banks in Israel	1,608	1,608	-	807	806	-	-	1	-	(3)
Government of Israel	33,721	33,721	-	317	317	-	-	(1)	-	-
Total activity in Israel	530,064	521,092	5,407	483,671	366,573	5,407	1,762	487	88	(5,326)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under reverse repurchase agreements, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 366,573, 34,238, 553, 11,606 and 117,094 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debt, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (f) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.
- (h) For more information about the first-time application, as from January 1, 2022, of the accounting policy on identification and classification of performing and non-performing debts (in lieu of impaired debts), please see Note 1.H to the financial statements as at December 31, 2022.
- (i) Outstanding loan loss provision according to CECL - for more information, please see Note 1.X.1. in the financial statements as at December 31, 2022.
- (j) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022).

December 31, 2022										
Total credit risk <sup>(a)(i)</sup>			Debts <sup>(b)</sup> and off-balance sheet credit risk (net of derivatives) <sup>(c)</sup>							
	Credit performance rating <sup>(e)</sup>	Problem <sup>(f)</sup>	Total <sup>1</sup>	<sup>1</sup> Of which:		Non-performing <sup>(g)</sup>	Loan losses <sup>(h)(i)(d)</sup>			
				Debts <sup>(b)</sup>	Problem <sup>(f)</sup>		Expenses (income) in respect of loan losses	Net accounting write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity abroad										
Commercial - Public										
Agriculture	185	184	-	175	157	-	-	-	-	(1)
Mining and quarrying	715	715	-	-	-	-	-	-	-	-
Manufacturing	5,524	5,485	8	3,515	2,646	8	8	10	3	(24)
Construction & real estate	9,549	9,221	268	9,437	6,872	268	94	31	116	(101)
Power and water supply	541	538	-	136	5	-	-	-	-	-
Commerce	1,011	941	3	411	399	3	-	4	8	-
Hotels, accommodation and dining services	3,536	1,953	1,125	3,518	3,094	1,125	185	(78)	50	(87)
Transportation and storage	397	397	-	172	172	-	-	-	-	-
Information and communication	1,141	1,129	12	594	158	12	12	6	-	(19)
Financial services	36,521	36,410	1	4,256	3,822	1	-	22	-	(27)
Business and other services	488	488	-	434	422	-	-	(4)	(1)	-
Public and community services	180	175	5	151	150	5	-	(3)	-	(1)
Commercial - total	59,788	57,636	1,422	22,799	17,897	1,422	299	(12)	176	(260)
Individuals - Housing loans	33	32	-	33	30	-	-	-	-	-
Private individuals - other	71	68	1	71	65	1	1	1	-	-
Total loans to the public - overseas activity										
	59,892	57,736	1,423	22,903	17,992	1,423	300	(11)	176	(260)
Foreign banks	35,391	35,391	-	15,337	12,634	-	-	32	-	(37)
Foreign governments	18,132	18,132	-	1,137	792	-	-	(10)	-	(2)
Total activity abroad	113,415	111,259	1,423	39,377	31,418	1,423	300	11	176	(299)
Total	643,479	632,351	6,830	523,048	397,991	6,830	2,062	498	264	(5,625)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debts,<sup>(b)</sup> bonds, securities borrowed or purchased under reverse repurchase agreements, credit risk for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 31,418, 44,359, 2,481, 27,198 and 7,959 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debt, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (f) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.
- (g) For information about the first-time application, as from January 1, 2022, of the accounting policy on identification and classification of performing and non-performing debts (in lieu of impaired debts), please see Note 1.H. to the Financial Statements as at December 31, 2022.
- (h) Outstanding loan loss provision according to CECL - for more information, please see Note 1.X.1. in the financial statements as at December 31, 2022.
- (i) Regarding the results without Bank Leumi USA, loan loss income from total foreign operations - public amounted to approx. NIS 25 million and net charge-offs amounted to approx. NIS 136 million.
- (j) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022).

December 31, 2021										
Total credit risk <sup>(a)(i)</sup>			Debts <sup>(b)</sup> and off-balance sheet credit risk (net of derivatives) <sup>(c)</sup>							
	Credit performance rating <sup>(e)</sup>	Problem <sup>(f)</sup>	Total <sup>1</sup>	<sup>1</sup> Of which:		Non-performing <sup>(h)</sup>	Loan losses <sup>(d)</sup>			
				Debts <sup>(b)</sup>	Problem <sup>(f)</sup>		Expenses (income) in respect of loan losses	Net accounting write-offs	Balance of loan loss provision	
In NIS millions										
In respect of borrower activity in Israel										
Commercial - Public										
Agriculture	2,576	2,485	62	2,575	2,297	62	24	(19)	(7)	(41)
Mining and quarrying	599	598	1	571	227	1	-	(1)	-	(1)
Manufacturing	27,273	26,697	496	26,612	16,659	496	130	(1)	17	(417)
Construction & real estate - Construction <sup>(g)</sup>	78,706	78,157	349	78,600	41,225	349	79	170	(28)	(682)
Construction & real estate - Real estate activity	40,707	40,028	260	40,438	34,856	260	152	(2)	(66)	(468)
Power and water supply	8,950	8,900	50	8,730	4,861	50	26	(12)	-	(39)
Commerce	32,951	32,496	394	32,497	25,841	394	126	(166)	14	(297)
Hotels, accommodation and dining services	4,233	3,817	377	4,220	3,674	377	255	(46)	(17)	(168)
Transportation and storage	7,859	7,298	519	7,835	6,355	519	170	(76)	21	(135)
Information and communication	5,094	4,917	155	4,967	3,160	155	138	(148)	(112)	(118)
Financial services	44,925	44,889	33	31,498	23,534	33	11	29	(8)	(268)
Business and other services	12,244	11,912	290	12,215	8,807	290	96	(195)	(20)	(223)
Public and community services	10,356	10,224	125	10,342	8,642	125	23	(100)	(2)	(89)
Commercial - total	276,473	272,418	3,111	261,100	180,138	3,111	1,230	(567)	(208)	(2,946)
Individuals - Housing loans	107,323	104,392	629	107,323	103,598	629	20	(141)	5	(489)
Private individuals - other	40,133	37,890	653	40,121	27,659	653	204	(44)	20	(727)
Total loans to the public - activity in Israel	423,929	414,700	4,393	408,544	311,395	4,393	1,454	(752)	(183)	(4,162)
Banks in Israel	2,668	2,668	-	1,192	1,098	-	-	-	-	(1)
Government of Israel	32,186	32,186	-	205	205	-	-	-	-	-
Total activity in Israel	458,783	449,554	4,393	409,941	312,698	4,393	1,454	(752)	(183)	(4,163)

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under reverse repurchase agreements, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 312,698, 31,271, 1,603, 4,152 and 109,059 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debt, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (f) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.
- (g) Including housing loans extended to certain purchasing groups currently in the process of construction.
- (h) Comparative figures are presented according to the new disclosure format. For more information about the application of the accounting policy on identification and classification of performing and non-performing debts (in lieu of impaired debts), please see Note 1.H to the financial statements as at December 31, 2022.
- (i) The comparative figures were not restated according to the new disclosure format of the definitions for on-balance sheet credit risk and off-balance sheet credit risk, which were revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022).

December 31, 2021										
Total credit risk <sup>(a)(g)</sup>			Debts <sup>(b)</sup> and off-balance sheet credit risk (net of derivatives) <sup>(c)</sup>							
Total	Credit performance rating <sup>(e)</sup>	Problem <sup>(f)</sup>	Total <sup>1</sup>	<sup>1</sup> Of which:		Non-performing <sup>(g)</sup>	Loan losses <sup>(d)</sup>			
				Debts <sup>(b)</sup>	Problem <sup>(f)</sup>		Expenses (income) in respect of loan losses	Net accounting write-offs	Balance of loan loss provision	
In NIS millions										
<b>In respect of borrower activity abroad</b>										
<b>Commercial - Public</b>										
Agriculture	338	337	-	336	264	-	-	-	-	(3)
Mining and quarrying	630	630	-	-	-	-	-	-	-	-
Manufacturing	9,150	9,073	28	7,403	5,382	28	28	(39)	8	(52)
Construction & real estate	17,033	15,817	670	16,895	14,474	670	308	51	47	(281)
Power and water supply	422	422	-	108	21	-	-	-	-	-
Commerce	3,557	3,424	36	3,189	2,480	36	23	(1)	1	(31)
Hotels, accommodation and dining services	3,093	677	1,930	3,084	2,595	1,930	883	(71)	7	(310)
Transportation and storage	692	572	68	506	491	68	-	2	-	(6)
Information and communication	1,490	1,476	14	943	157	14	14	1	10	(16)
Financial services	33,956	33,927	1	7,571	6,186	1	1	34	9	(56)
Business and other services	3,925	3,370	179	3,876	3,151	179	35	(22)	14	(54)
Public and community services	553	535	17	513	369	17	17	(10)	-	(10)
<b>Commercial - total</b>	<b>74,839</b>	<b>70,260</b>	<b>2,943</b>	<b>44,424</b>	<b>35,570</b>	<b>2,943</b>	<b>1,309</b>	<b>(55)</b>	<b>96</b>	<b>(819)</b>
Individuals - Housing loans	90	89	-	90	90	-	-	(4)	(3)	-
Private individuals - other	357	355	1	357	336	1	1	(1)	-	-
<b>Total loans to the public - overseas activity</b>										
	75,286	70,704	2,944	44,871	35,996	2,944	1,310	(60)	93	(819)
<b>Foreign banks</b>	<b>36,796</b>	<b>36,796</b>	<b>-</b>	<b>17,117</b>	<b>15,224</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>
<b>Foreign governments</b>	<b>27,471</b>	<b>27,471</b>	<b>-</b>	<b>959</b>	<b>735</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total activity abroad</b>	<b>139,553</b>	<b>134,971</b>	<b>2,944</b>	<b>62,947</b>	<b>51,955</b>	<b>2,944</b>	<b>1,310</b>	<b>(60)</b>	<b>93</b>	<b>(821)</b>
<b>Total</b>	<b>598,336</b>	<b>584,525</b>	<b>7,337</b>	<b>472,888</b>	<b>364,653</b>	<b>7,337</b>	<b>2,764</b>	<b>(812)</b>	<b>(90)</b>	<b>(4,984)</b>

- (a) Balance-sheet credit risk and off-balance-sheet credit risk, including for derivatives. Including debt, bonds, securities borrowed or purchased under reverse repurchase agreements, assets in respect of derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower credit limitations in the amounts of NIS 51,955, 51,297, 844, 9,659 and 25,798 million, respectively.
- (b) Loans to the public, loans to governments, deposits with banks and other debt, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
- (c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, excluding for derivatives.
- (d) Including for off-balance-sheet credit instruments (presented in the balance sheet under "Other liabilities").
- (e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
- (f) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.
- (g) Comparative figures are presented according to the new disclosure format. For more information about the application of the accounting policy on identification and classification of performing and non-performing debts (in lieu of impaired debts), please see Note 1.H to the financial statements as at December 31, 2022.
- (h) The comparative figures were not restated according to the new disclosure format of the definitions for on-balance sheet credit risk and off-balance sheet credit risk, which were revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022).



## Credit Exposures by Remaining Loan Term<sup>(a)</sup>

December 31, 2022						
	Up to one year	From one and up to five years	More than five years and up to 15 years	Over 15 years	Total credit exposure	Average term to maturity
In NIS millions						
<b>Balance-sheet credit exposure:</b>						
Commercial	158,238	83,330	43,559	22,659	307,786	3.97
Individuals - Housing loans	10,901	38,903	77,969	38,928	166,701	9.18
Private individuals - other	12,901	15,288	2,895	1,681	32,765	3.51
Assets in respect of derivatives	15,518	5,639	2,290	439	23,886	2.55
Total - Public	197,558	143,160	126,713	63,707	531,138	5.53
Banks and governments <sup>(b)</sup>	204,290	30,298	10,892	10,770	256,250	2.29
<b>Total balance-sheet credit exposure</b>	<b>401,848</b>	<b>173,458</b>	<b>137,605</b>	<b>74,477</b>	<b>787,388</b>	<b>4.48</b>
Of which: Bonds	21,588	34,698	19,650	20,763	96,699	7.15
<b>Total off balance-sheet credit risk exposure</b>	<b>71,743</b>	<b>91,788</b>	<b>7,295</b>	<b>-</b>	<b>170,826</b>	<b>2.41</b>
December 31, 2021						
	Up to one year	From one and up to five years	More than five years and up to 15 years	Over 15 years	Total credit exposure	Average term to maturity
In NIS millions						
<b>Balance-sheet credit exposure:</b>						
Commercial	120,127	72,057	32,657	12,935	237,776	3.22
Individuals - Housing loans	16,805	32,858	68,361	34,125	152,149	8.84
Private individuals - other	12,156	15,289	1,770	908	30,123	3.00
Assets in respect of derivatives	5,141	1,612	686	131	7,570	2.44
Total - Public	154,229	121,816	103,474	48,099	427,618	4.84
Banks and governments <sup>(b)</sup>	225,506	24,571	13,725	5,343	269,145	2.02
<b>Total balance-sheet credit exposure</b>	<b>379,735</b>	<b>146,387</b>	<b>117,199</b>	<b>53,442</b>	<b>696,763</b>	<b>3.69</b>
Of which: Bonds	29,085	26,581	24,288	11,645	91,599	5.49
<b>Total off balance-sheet credit risk exposure</b>	<b>67,254</b>	<b>77,370</b>	<b>5,075</b>	<b>-</b>	<b>149,699</b>	<b>2.29</b>

(a) The amounts represent expected future cash flows based on the remaining contractual term of each cash flow for balance-sheet credit risk and off-balance sheet credit risk (excluding off-balance sheet credit risk arising from derivative instruments).

(b) Including bonds of banks and governments and assets for derivatives against banks.

## Exposure to Foreign Countries<sup>(a)</sup>

Part A - Information regarding total exposure to foreign countries and to countries, where the total exposure to each country is more than 1% of total consolidated assets or more than 20% of total capital for the purpose of calculating the capital ratio, the lower of which:

	1	2	3	4	5	4-5=6
	<b>December 31, 2022</b>					
	Balance sheet exposure <sup>(b)(c)(h)</sup>					
Country	Cross-border on-balance sheet exposure			Balance sheet exposure of the banking corporation's foreign offices to the local residents of that foreign country		
				Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net on-balance sheet exposure after deduction of local liabilities
	To governments	To banks	To others			
	In NIS millions					
United States	18,400	990	10,641	-	-	-
UK	221	4,595	5,369	6,687	12	6,675
France	-	695	53	-	-	-
Switzerland	-	2,640	302	22	22	-
Germany	4,865	1,345	124	-	-	-
Other	4,492	7,837	9,690	-	-	-
Total exposure to foreign countries	27,978	18,102	26,179	6,709	34	6,675
Total exposures to LDC countries <sup>(f)</sup>	383	173	619	-	-	-
Total exposures to GIPS countries <sup>(e)</sup>	237	140	50	-	-	-

	1	2	3	4	5	4-5=6
	<b>December 31, 2021</b>					
	Balance sheet exposure <sup>(b)</sup>					
Country	Cross-border on-balance sheet exposure			Balance sheet exposure of the banking corporation's foreign offices to the local residents of that foreign country		
				Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net on-balance sheet exposure after deduction of local liabilities
	To governments	To banks	To others			
	In NIS millions					
United States	22,986	3,031	8,798	25,074	23,036	2,038
UK	198	5,953	8,389	6,637	1,384	5,253
France	-	1,780	107	-	-	-
Switzerland	307	1,935	212	22	21	1
Germany	2,714	456	92	-	-	-
Other	6,627	9,234	7,912	-	-	-
Total exposure to foreign countries	32,832	22,389	25,510	31,733	24,441	7,292
Total exposures to LDC countries <sup>(f)</sup>	396	132	803	-	-	-
Total exposures to GIPS countries <sup>(e)</sup>	394	163	51	-	-	-

Please see comments below.

6+3+2+1=7	8	9	10	11	12	13
Off balance-sheet exposure <sup>(a)(b)(c)(h)</sup>				Cross-border on-balance sheet exposure <sup>(b)</sup>		
Total balance sheet exposure						
	Problem balance-sheet credit risk	Non-performing debts	Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Loan term: up to one year	Loan term: over one year
30,031	352	246	9,930	1	10,128	19,903
16,860	828	124	21,602	-	7,484	2,701
748	-	-	1,582	-	112	636
2,942	-	-	3,880	-	2,571	371
6,334	-	-	3,590	-	3,444	2,890
22,019	447	6	6,402	2	12,871	9,148
78,934	1,627	376	46,986	3	36,610	35,649
1,175	1	-	1,445	-	433	742
427	-	-	170	-	159	268
6+3+2+1=7	8	9	10	11	12	13
Off-balance sheet exposure <sup>(b)(c)</sup>				Cross-border on-balance sheet exposure <sup>(b)</sup>		
Total balance sheet exposure						
	Problem balance-sheet credit risk	Non-performing debts	Total off balance-sheet exposure	Of which: Off balance-sheet problem credit risk	Loan term: up to one year	Loan term: over one year
36,853	789	337	8,329	1	21,961	12,854
19,793	339	59	10,971	-	10,923	3,617
1,887	9	7	2,355	-	1,104	783
2,455	-	-	2,303	-	2,165	289
3,262	-	-	1,501	-	2,366	896
23,773	42	-	4,637	1	15,422	8,351
88,023	1,179	403	30,096	2	53,941	26,790
1,331	1	-	1,161	1	363	968
608	41	-	300	-	185	423

Comments:

- (a) Exposure to foreign countries is presented based on the final risk.
- (b) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of deductible collateral for the purpose of restricting indebtedness of individual borrowers and borrower groups.
- (c) On balance-sheet credit risk and off-balance-sheet credit risk for derivatives are presented after deducting credit risk.
- (d) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit indebtedness limitations.
- (e) Exposure to the GIPS countries includes: Greece, Italy, Portugal and Spain.
- (f) "Exposure to LDCs" includes total exposure to countries defined as least developed countries (LDCs), which are classified by the World Bank as low or mid-income countries.
- (g) The Bank set several criteria for the list of countries whose current conditions may reflect liquidity issues, that may impact their repayment capacities. The balance applies to 16 countries (as of December 31, 2021 - 14 countries). As of March 2021, the measurement does not include exposures to investment-grade countries, unless they were individually identified as having liquidity issues which may have a material effect on their solvency.
- (h) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022). Comparative results were not restated.

Part B - information regarding countries, the total exposure to each of which ranges between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever the lower:

As of December 31, 2022, there is an on-balance sheet exposure to the Cayman Islands totaling NIS 5.7 billion.

(as of December 31, 2021, there is no aggregate on-balance sheet exposure to foreign countries that meets this definition).

## Credit Risk Mitigation Techniques (CRC)

Under its credit risk management policy, the Bank's main consideration when granting credit is a borrower's repayment capacity. However, in many cases, the Bank strives to obtain collateral as additional backup, so as to reduce loss to the Bank in the event of the borrower's business- or financial failure. The amount of collateral is derived, inter alia, from a borrower's credit risk level.

As part of the collateral policy and relevant internal procedures, the Bank has set principles and rules regarding collateral types and amounts for all economic sectors. The collateral requirements and rates are in line with the level of risk the Bank is willing to assume when granting a loan.

Furthermore, business criteria are determined on receiving a collateral as well as the rate of reliance on the collateral, its treatment, methods and timing for updating its value and means of control and monitoring.

As far as possible, collateral is adapted to the kind of credit it secures, taking into account the time frame, types of linkage, nature and purpose of the credit, as well as the speed in which the collateral can be realized. The Bank verifies the value of the main collateral (particularly in the real estate and equipment fields) by obtaining independent, up-to-date appraisals or valuations.

The most common types of collateral the Bank accepts to secure credit include, inter alia, financial assets, real estate properties, motor vehicles, various types of equipment, etc.

The Bank has a system which can generate information regarding the type of assets used as collateral.

In order to mitigate the credit risk under the standardized approach, the Bank employs the comprehensive method in accounting for the collaterals.

The main instruments recognized as valid collateral by the Bank under the standardized approach are NIS deposits, foreign currency deposits, savings plans and government bonds.

A collateral is recognized as valid if it meets the requirements of Proper Conduct of Banking Business Directive No. 203, including legal certainty, the right for early call back in case of a default and applicability to third parties.

Among other things, the Bank uses netting letters that constitute qualified collateral under Proper Conduct of Banking Business Directive No. 203 for calculating capital adequacy.

The Bank uses qualified collateral to change the risk weighting of debts backed by guarantees to the risk weight of the security provider, when calculating the risk assets under the standardized approach. For this purpose, the Bank recognizes mainly the following types of collateral as valid: guarantees and insurance policies of the Israeli Government and of Israeli banks, as well as of other high-rated credit granting entities and insurers, which qualify for capital adequacy purposes.

## Credit Risk Mitigation Techniques – Overview (CR3)

		A	A1	A2	B	C	D	E
		December 31, 2022						
		Unse- cured	Secured <sup>(c)</sup>					
		Total on- balance sheet assets <sup>(a)</sup>	Total on- balance sheet assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>	Of which: collateral Total assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>	Of which: financial guarantees Total assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>
		In NIS millions						
1	Debts, excluding bonds	329,961	63,027	34,478	44,634	19,827	18,393	14,651
2	Bonds	54,567	10,769	10,769	-	-	10,769	10,769
3	Total	384,528	73,795	45,246	44,634	19,827	29,162	25,419
Of which: impaired or in arrears of 90 days or more		1,781	202	32	107	13	95	19
		A	A1	A2	B	C	D	E
		December 31, 2021						
		Unse- cured	Secured <sup>(c)</sup>					
		Total on- balance sheet assets <sup>(a)</sup>	Total on- balance sheet assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>	Of which: collateral Total assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>	Of which: financial guarantees Total assets <sup>(a)</sup>	Of which: secured amount <sup>(b)</sup>
		In NIS millions						
1	Debts, excluding bonds	316,455	43,683	18,358	31,304	11,299	12,379	7,059
2	Bonds	62,803	7,167	7,167	-	-	7,167	7,167
3	Total	379,258	50,850	25,525	31,304	11,299	19,546	14,226
Of which: impaired or in arrears of 90 days or more		3,647	243	34	149	15	94	19

(a) Book balance according to the accounting values reported in the financial statements and after other than temporary provisions for loan losses or impairments.

(b) Book balance of the share of the debts secured by collateral, guarantees or credit derivative, after taking into account precautionary measures.

(c) Book balance of said debts, after other than temporary provisions for loan losses or impairments, partially or fully secured, regardless of the specific portion secured for the original exposure.

## Use of External Credit Ratings under the Standardized Approach for Credit Risk (CRD)

The credit risk exposures is weighted according to the standardized approach. Under this approach, risk weights depend on exposure types, and in some cases, rely on associated credit ratings (insofar as an eligible rating is available). In case such exposures have ratings as foregoing, the Bank uses the credit ratings of three external credit rating agencies:

- Standard & Poor's Ratings Services
- Moody's Investors Service
- Fitch Ratings

In order to determine the risk weightings in accordance with the credit ratings as foregoing, the Bank uses the standardized mapping tables prescribed by the Banking Supervision Department under Proper Conduct of Banking Business Directive No. 203, which is revised from time to time.

Risk weightings for debts of rated corporations are determined on the basis of the long-term credit ratings of these corporations, in the following manner: When the debt has a single rating, that rating is used to determine the debt's risk weight. When there are two ratings, by two different agencies, mapped for different risk weights, the higher risk weight is selected. When three ratings are available, the best two ratings will taken into account, and from these, the risk weight referring to the lower rating of the two will be selected.

## Standardized Approach – Credit Risk Exposure and Credit Risk Mitigation Effects (CR4)

Asset classes	A	B	C	D	E	F
	December 31, 2022					
	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Balance-sheet amount <sup>(b)</sup>	Off balance-sheet amount <sup>(c)</sup>	Balance-sheet amount <sup>(b)</sup>	Off balance-sheet amount <sup>(c)</sup>	RWA	RWA density
	In NIS millions					
1 Sovereignties, their central banks and national monetary authority	213,159	361	224,022	288	1,102	0.49%
2 Public sector entities (PSEs) other than a central government	17,575	2,087	9,469	981	3,832	36.67%
3 Banks, including multilateral development banks (MDBs)	23,376	8,204	18,098	3,444	5,267	24.45%
4 Securities firms	4,328	1,642	1,361	218	466	29.51%
5 Corporations	124,206	55,009	124,710	36,394	143,626	89.15%
6 Retail exposures to individuals	38,643	16,377	38,334	2,827	30,871	75.00%
7 Loans to small businesses	17,298	4,360	15,857	1,171	12,772	75.01%
8 Secured by a residential property	118,438	9,573	118,423	2,346	65,196	53.98%
9 Secured by a commercial property	76,738	74,335	64,402	13,523	80,835	103.73%
10 Delinquent loans <sup>(d)</sup>		2,457		2,401	3,146	131.03%
11 Other assets	12,259	-	12,259	-	10,233	83.47%
12 Total	648,477	171,948	629,336	61,192	357,346	51.75%

Asset classes	A	B	C	D	E	F
	December 31, 2021					
	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Balance-sheet amount <sup>(b)</sup>	Off balance-sheet amount <sup>(b)</sup>	Balance-sheet amount <sup>(c)</sup>	Off balance-sheet amount <sup>(c)</sup>	RWA	RWA density
	In NIS millions					
1 Sovereignties, their central banks and national monetary authority	235,634	237	243,567	169	3,456	1.42%
2 Public sector entities (PSEs) other than a central government	18,547	2,671	13,461	1,148	4,861	33.27%
3 Banks, including multilateral development banks (MDBs)	20,175	5,875	17,309	3,085	5,260	25.79%
4 Securities firms	3,473	1,507	2,099	146	611	27.22%
5 Corporations	114,691	48,747	111,543	28,973	129,633	92.25%
6 Retail exposures to individuals	35,884	15,495	35,528	2,664	28,646	75.01%
7 Loans to small businesses	16,758	4,205	15,042	1,097	12,104	75.00%
8 Secured by a residential property	102,157	12,030	102,136	1,631	56,261	54.22%
9 Secured by a commercial property	62,519	59,568	58,439	13,084	71,523	100.00%
10 Delinquent loans <sup>(d)</sup>		2,833		2,726	3,202	117.46%
11 Other assets	13,103	-	13,103	-	10,941	83.50%
12 Total	625,774	150,335	614,953	51,997	326,498	48.95%

- (a) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding deferred tax amounts and investments in financial corporations below the deduction thresholds (subject to a 250% risk weight), counterparty credit risk exposures (included in Part 5A to the Report), and securitization.
- (b) The balances reflect the regulatory exposure amounts, net of provisions and write-offs, and after credit risk mitigation methods.
- (c) The balances reflect the regulatory exposure amounts, net of provisions and write-offs, after credit conversion coefficients and after credit risk mitigation methods.
- (d) On-balance sheet and off-balance sheet balances were merged due to immateriality.



## Standardized Approach – Exposures by Asset Classes and Risk Weights<sup>(a)(b)</sup> (CR5)

		A	C	D	E	F	G	H	I	M	
		December 31, 2022									
Asset classes / risk weight											Total credit exposures amount (after CCF and CRM)
		0%	2%	20%	35%	50%	60%	75%	100%	150%	
		In NIS millions									
1	Sovereignities, their central banks and national monetary authority	220,042	-	3,651	-	490	-	-	127	-	224,310
2	Public sector entities (PSEs) other than a central gov't	1,661	-	1,876	-	6,913	-	-	-	-	10,450
3	Banks, including multilateral development banks (MDBs)	2,651	-	14,038	-	4,791	-	-	59	3	21,542
4	Securities firms	-	-	1,080	-	499	-	-	-	-	1,579
5	Corporations	-	-	14,151	-	13,824	-	-	131,614	1,515	161,104
6	Retail exposures to individuals	-	-	-	-	-	-	41,161	-	-	41,161
7	Loans to small businesses	-	-	-	-	-	-	17,028	-	-	17,028
8	Secured by residential property	-	-	-	31,334	32,389	35,672	18,970	2,404	-	120,769
9	Secured by acommercial property	-	-	-	-	-	-	-	72,104	5,821	77,925
10	Delinquent loans	-	-	-	-	-	-	-	912	1,489	2,401
11	Other assets	2,556	-	-	-	-	-	-	8,644	1,059	12,259
11A	Of which: for shares	-	-	-	-	-	-	-	5,258	1,059	6,317
12	Total	226,910	-	34,796	31,334	58,906	35,672	77,159	215,864	9,887	690,528
		A	C	D	E	F	G	H	I	M	
		December 31, 2021									
Asset classes / risk weight											Total credit exposures amount (after CCF and CRM)
		0%	2%	20%	35%	50%	60%	75%	100%	150%	
		In NIS millions									
1	Sovereignities, their central banks and national monetary authority	227,986	-	14,977	-	624	-	-	149	-	243,736
2	Public sector entities (PSEs) other than a central gov't	1,674	-	5,372	-	7,552	-	-	11	-	14,609
3	Banks, including multilateral development banks (MDBs)	2,340	-	13,454	-	4,060	-	-	540	-	20,394
4	Securities firms	-	-	1,704	-	541	-	-	-	-	2,245
5	Corporations	-	394	11,446	-	3,100	-	-	125,159	417	140,516
6	Retail exposures to individuals	-	-	-	-	-	-	38,189	3	-	38,192
7	Loans to small businesses	-	-	-	-	-	-	16,139	-	-	16,139
8	Secured by a residential property	-	-	-	29,158	27,103	24,486	20,828	2,192	-	103,767
9	Secured by a commercial property	-	-	-	-	-	-	-	71,523	-	71,523
10	Delinquent loans	-	-	-	-	-	-	-	1,774	952	2,726
11	Other assets	2,585	-	-	-	-	-	-	9,671	847	13,103
11A	Of which: for shares	-	-	-	-	-	-	-	4,987	847	5,834
12	Total	234,585	394	46,953	29,158	42,980	24,486	75,156	211,022	2,216	666,950

(a) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding deferred tax amounts and investments in financial corporations below the deduction thresholds (subject to a 250% risk weight), counterparty credit risk exposures (included in Part 5A to the Report), and securitization (included in Appendix B to this report).

(b) The balances reflect the regulatory exposure amounts, net of provisions and write-offs, after credit conversion coefficients and after credit risk mitigation methods.

## Additional Information on Credit Risk

### Risks to the construction and real estate industries

#### Activity and risk boundaries in the construction and real estate industry

The construction and real estate industry is an area of activity to which the Bank has significant credit exposure. As with other economic sectors, the Bank's credit policy outlines internal methodologies and criteria for financing transactions for each of the real estate industry's sub-sectors.

Leumi's focus on real estate financing is reflected, inter alia, in the fact that a significant part of the Bank's activity is concentrated in a dedicated department specializing in serving customers in this area. The Construction and Real Estate Department finances some of the most extensive and/or complex transactions in this field, leveraging its credit officers' expertise and practical experience.

A significant portion of construction and infrastructure loans are extended under the construction loan model, which is characterized by periodic assessment and close monitoring of relevant criteria (such as: sales, construction progress, staying within budget, etc.). This is done by relying in part on certified outsourced construction supervisors.

Credit granted to the real estate sector is in line with the Bank's risk appetite, in accordance with strict underwriting, a stringent financing and supervision method, property collateral and adequate pricing.

As a result, and in an effort to continue being a dominant player in the industry, the Bank strives to make optimal and effective use of the internal and regulatory restrictions in light of the macroeconomic forecasts.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and tracking the development of the segment's risk characteristics.

The Bank also analyses the real estate sector's risk under a systemic stress scenario. In this context, loan losses are broken down into sub-sectors and examined against the risk appetite.

In addition to the regulatory limit and in order to effectively manage the internal credit risk mix, the Bank is careful to apply geographical diversification to the projects, according to demand and across the different sub-sectors.

As of 2016, the Bank insures its guarantee portfolio in accordance with the Sales Law (Apartments).

These policies, which were purchased from global, high-rated reinsurers, insure the Bank against paying for the forfeiture of Sales Law guarantees, according to the terms and conditions of the policy.

As of December 31, 2021, the Bank also insures a portion of its financial loan portfolio financing land, through global reinsurers with high credit ratings, which cover the Bank if an insured loan for land is not duly repaid. In addition, starting from the third quarter of 2022, the Bank also insures part of the performance and guarantee portfolio associated with the real estate sector.

The insurance transactions enable the Bank to reduce the capital held for the credit risk arising from the issuance of the guarantees/providing the land loans, while using the policy as a credit risk mitigator (the reduction is in line with the rating of the reinsurers). Leumi continues to proactively expand the real estate portfolio, focusing on the housing segment and selected financially resilient customers. The Bank is careful to maintain geographical diversification of the projects, according to demand and macroeconomic forecasts.

In recent years, growth in the real estate credit portfolio at Leumi was accompanied by a certain increase in LTV on the back of the growing competition in the market. Most of the increase in the LTV was in the financing of residential land and projects in high-demand areas.

The share of the troubled credit risk in the construction and real estate industries (activity in Israel) was up but continues to be lower than the share of the troubled credit risk in the total portfolio.

On December 27, 2021, the Bank of Israel revised Proper Conduct of Banking Business Directive No. 315, which extends the easement provided by the temporary order<sup>1</sup> to the real estate and construction industry in the banking system, as follows:

- The exposure restriction to the real estate and construction industry was extended from 20% to 22% of the loan portfolio (excluding national infrastructure).
- The exposure restriction to the real estate and construction industry (including national infrastructure) was extended from 24% to 26% of the loan portfolio.

The easements will be in effect for a period of up to 24 months as of December 31, 2025, provided that the rate of indebtedness shall not exceed the higher of: the rate as at December 31, 2025 or the rate of the industry-specific restriction prior to the easement.

It was determined that credit for which eligible credit insurance was provided would be classified according to the insuring industry. Such that in order to measure the industry limitation, credit for real estate and construction covered by eligible credit insurance will be deducted from the indebtedness of the real estate and construction industry.

As of December 31, 2022, the Bank complies with the regulatory limitation set out in law. In addition, the Bank set internal limitations that are in line with the Bank's assessment of the risk in the various sub-industries. Nevertheless, considering the significant credit needs in the sector on the one hand and the regulatory limitation on the other, the Bank is working on implementing a plan to reduce the concentration ratio in the sector.

On March 20, 2022, as part of the decision to take additional regulatory measures, the Banking Supervision Department published a letter entitled "Increase in Credit Risk for the Construction and Real Estate Industry"; the following is information regarding the measures listed in the document:

- On May 3, 2022, a final circular was published on the subject, expanding the reporting for the construction and real estate sector, effective from September 30, 2022. The Bank will apply the requirements of the circular.
- On May 18, 2022, the Banking Supervision Department published a document featuring examples of credit underwriting and classification expected of the banks.
- Revision to Directive 203 on capital allocation in respect of financing land at an LTV ratio of over 80%.

On January 26, 2023, the Bank of Israel issued the final version of the FAQ on capital adequacy requirements under the standard approach, with respect to the revision of Directive 203, as aforementioned.

For details regarding the effect of the revision on the measurement of the Bank's capital requirements, please see Regulatory and Other Changes in Measuring the Capital Requirements, under Capital and Capital Adequacy in this report.

The information in this section constitutes "forward-looking information". For the meaning of the term, please see the section entitled "Forward-Looking Information".

For more information about the activity and risk boundaries in the construction and real estate sector, see the Credit Risk chapter in the Report of the Board of Directors and Management as of December 31, 2022.

#### Macroeconomic effects

In 2020-2021, the residential construction industry was characterized by a significant surge in transactions for the purchase of apartments as a result of the relatively stable demand stemming from the population growth, the supporting macroeconomic environment (strong recovery from the coronavirus crisis, low interest rate environment) and regulatory easements.

<sup>1</sup> Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis dated January 10, 2021.

However, in the past months, there began a significant decline in demand for housing purchases, on the back of a macroeconomic environment which is growing less supportive of demand for real estate properties as a result of a rapid rise in inflation and interest rates and expectations for lower growth rates. Moreover, it is estimated that the high growth rate of the population in Israel will continue to drive demand in the mid- to long-term. On the supply side, the number of finished apartments continued to be relatively low in the past year for the yearly ongoing housing needs of the economy, while housing starts and building permits exceeded the amount of apartments required according to these current yearly needs.

The weakening demand, in addition to the marked increase in housing starts recorded in the past year, may halt the rise in housing prices in the coming year and may even cause a moderate decline therein.

The Bank is reviewing the effects of the rise in interest rates and slowdown in demand for housing in the past months on companies' liquidity. It is currently believed that the effect will be immaterial.

In the commerce domain, since the beginning of 2022, there has been a slowdown in the activity of the commercial sectors, in the context of the increase in Israelis' travel abroad and in view of the diminishing effect of the "pent-up demand" once the coronavirus restrictions have been lifted. Looking forward, the deterioration in the macro environment (the damage from inflation and the rising interest on the public's purchasing power, the entry of a wide supply of commercial space, continued expansion in the share of online commerce) may lead to a continued slowdown in the growth of the commercial centers' activity in the coming year. Most of the slowdown is expected in large shopping centers, while neighborhood shopping centers may continue to fare well.

In the office domain, the strong rise in the office market that occurred in 2021 and in the first half of 2022, in particular in Tel Aviv, stopped in the last months in which a slowdown in market activity is felt. This slowdown is expected to continue in the coming year, along with the deterioration of the macro environment. It is expected that the supply of new office space will continue to grow substantially (especially in the Tel Aviv suburbs), while the economy continues to slow down; these factors are expected to put pressure on continued rise in prices and occupancy rates in the coming year.

As stated at the beginning of the credit chapter, subsequent to the reporting period, public events began - legislative and social - regarding which there is considerable uncertainty as to the manner of their development and impact on the Israeli economy in the medium and long term, and as a result - on the bank's results. The said events may have an adverse effect on the Israeli economy and as a result, on the Bank's performance.

The information in this section constitutes "forward-looking information". For the meaning of the term, please see the section entitled "Forward-Looking Information".

Development of indebtedness for the construction and real estate industry (in Israel and overseas)

	December 31			
	2022	2021	Change	
	In NIS millions		In %	
On-balance-sheet credit risk <sup>(b)</sup>	100,500	90,905	9,595	10.6
Guarantees for apartment buyers <sup>(a)</sup>	9,767	7,669	2,098	27.4
Off-balance-sheet credit risk <sup>(a)(b)</sup>	47,127	37,872	9,255	24.4
Total credit risk	157,394	136,446	20,948	15.4

(a) In credit risk terms.

(b) Regarding the comparative results net of Bank Leumi USA, the balance sheet credit risk as of December 31, 2021 amounted to approx. NIS 82,289 million. In addition, the off-balance sheet credit risk as of December 31, 2021 amounted to approx. NIS 36,637 million.

Following are the details on overall credit risk in the real estate and construction sector in Israel, by LTV and absorption capacity - the Bank

December 31, 2022			
Overall credit risk <sup>(a)</sup>			
	Housing real estate under construction	Finished real estate properties	Total
Land			
In NIS millions			
<b>LTV ratio<sup>(b)(e)</sup></b>			
Up to 45%	1,344	9,745	11,089
More than 45% to 65%	4,515	11,439	15,954
More than 65% to 80%	12,747	11,742	24,489
More than 80%	14,209 <sup>(f)</sup>	5,310	19,519
<b>Absorption capacity<sup>(c)</sup></b>			
Absorption capacity up to 25 <sup>(d)</sup>	2,237		2,237
Absorption capacity from 25 to 50	7,191		7,191
Absorption capacity from 50 to 75	4,346		4,346
Absorption capacity of 75 or more	13,452		13,452
Project starts	6,790		6,790

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.

(b) Financing rate - the ratio between the balance of total credit risk as of the reporting date and the value of the real estate security guaranteeing the credit risk as of the reporting date.

(c) Absorption capacity – an indicator reflecting the maximum rate of erosion of apartment inventory prices such that it provides adequate coverage to the project's costs, taking into account own capital invested and presale.

(d) Projects with an absorption capacity of up to 25% also include rental housing that is not designated for sale.

(e) Starting from the financial statements for 2022, the Bank is implementing the revision of the Bank of Israel circular on the subject of credit risk, with reference to the calculation of the financing rates of land. For more information, please see Regulatory and other changes in measuring the capital requirements.

(f) Of which: NIS 10 billion is credit that is also backed by a collateral other than land and/or other settlement source.

Following is the composition of credit secured by real estate properties in Israel (in NIS million) - the Bank

	December 31	
	2022	2021
	Overall credit risk <sup>(a)</sup>	
	In NIS millions	
Housing	67,971	51,195
Office space	20,221	17,249
Manufacturing	6,206	4,691
Commerce and services	22,216	22,590
<b>Total credit secured by real estate properties in Israel</b>	<b>116,614</b>	<b>95,725</b>

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.

#### Analysis of the Bank Group's credit quality in the construction and real estate industries

	December 31		Change in %
	2022	2021	
	In NIS millions		
<b>Credit risk with credit performance rating</b>			
Non-problem credit risk	155,309	134,002	15.9
<b>Credit risk not in credit performance rating</b>			
Non-problem	407	1,165	(65.1)
Troubled performing <sup>(a)</sup>	1,363	740	84.2
Non-performing <sup>(a)</sup>	315	539	(41.6)
<b>Total credit risk not in credit performance rating</b>	<b>2,085</b>	<b>2,444</b>	<b>(14.7)</b>
<b>Total</b>	<b>157,394</b>	<b>136,446</b>	<b>15.4</b>

(a) Comparative results are presented in accordance with the new disclosure format; for more information about the application of the accounting policy on identification and classification of performing and non-performing debts (in lieu of impaired debts), please see Note 1.H to the financial statements as at December 31, 2022.

## Housing Loan Portfolio Risks

### Credit risk developments

Economic developments in Israel in recent years (a low interest environment, the affordable housing program, and an increase in housing prices) have led to a significant increase in housing loans provision, both for housing and investment purposes.

Despite the trend of rising interest and inflation, the level of demand for mortgages in the first three quarters of the year remained high, but in the fourth quarter a significant decrease was observed.

The increase in interest and inflation rates affects housing loans with variable interest, mostly in loans in which the monthly repayment constitutes a high percentage of the income. However, as of the publication date of the Report, the risk level in the portfolio remained low.

The housing loan portfolio is monitored and the trends in its characteristics and risk centers analyzed on a regular basis, including analysis of the effect of the rising interest rate and expected inflation. In addition, as from December, the Bank proactively contacts its customers and offers them alternatives to help them meet their monthly payments.

In addition, the Bank continues to adhere to a balanced underwriting policy that takes into consideration the borrower's repayment capacity, linkage base and interest, loan-to-value ratio (LTV), etc., while complying with all of the requirements of the Banking Supervision Department.

In case of default, the risk of default is managed by the Bank in two ways - the first is preventive, to mitigate the risk of default and the second - collecting debt in case of default.

The first stage - Actions for reducing the probability of default:

- Stringent underwriting - based on regulatory restrictions (Directive No. 329 - examining repayment capacity, LTV and credit mix) and is backed by models testing credit risk, which rely - inter alia - on information from the customer's Leumi account or the Bank of Israel's Central Credit Register.
- Building a mix customized to the customer's needs, which allows meeting monthly repayments
- Real estate collateral - credit is subject to providing collateral to the Bank's satisfaction, according to the nature of the credit and property. The collateral are examined by the mortgage consultants; in complex cases - additional an review is conducted.
- Payment deferment (grace) - partial grace is optional, in accordance with the provisions of the Banking Law - Service to Customers.

Second stage - collection:

- "Soft collection" - a call center which contacts customers experiencing repayment difficulties immediately when the first default event occurs; assistance is provided to customers, reaching debt settlement agreements and support until the debt is repaid.
- Legal claim -
  - Collection of debt through the Collection System Authority
  - Disposal of the property through the collateral provided

Regulatory changes:

- On January 31, 2022, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 451 - for information about this amendment, see the Legislation and Regulation chapter pertaining to the banking systems in the corporate governance report.
- On August 22, 2022, an amendment to the Banking Law (Customer Service) was published, which set a ceiling for the portfolio opening fee for a housing loan, in the amount of NIS 360.
- On October 6, 2022, Proper Conduct of Banking Business Directive 329B, Selling Housing Loans and Collaboration in Providing Housing Loans was published. The directive became effective upon its publication.
- All the temporary orders published by the Bank of Israel in the coronavirus crisis, which included regulatory expedients, have expired.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio In NIS millions	Change from end of previous year In %
December 31, 2020	89,594	7.0
December 31, 2021	103,109	15.1
<b>December 31, 2022</b>	<b>119,272</b>	<b>15.7</b>

As aforementioned, in 2020 and 2021, there was an increase in the extent of housing loans, inter alia, due to the rallying of the real estate market as a result of the maturing of affordable housing projects and partial recovery of investments. The increase continued in 2022 although in the last months of the year a moderation in housing loans amounts is evident.

As part of its monitoring of risk centers in the housing loans portfolio, the Bank also monitors characteristics of the portfolio and new credit, including the new credit's breakdown by loan-to-value ratios (loan-to-value ratio (LTV) is the ratio of total credit approved for the borrower - even if it has not yet been actually extended either in full or in part - out of the value of the mortgaged property during the approval of the credit line) and the repayment ratio (the repayment ratio is defined as the ratio between the available monthly income and monthly repayment).

#### Development of LTV ratio for new loans over 60%, in Israel

Following is the development in new credit granted by the Bank at an LTV ratio of over 60%, (LTV ratio is the ratio of the total loan granted to the borrower - even if it has not yet been granted in effect either in full or in part - out of the value of the pledged property at the time of the approval of the credit line):

	<b>2022</b>				2021	2020
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	Annual average	Annual average
LTV ratio	In % <sup>(a)</sup>					
More than 60 and up to 70, inclusive	<b>22.6</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>	21.6	19.7
More than 70 and up to 75, inclusive	<b>25.4</b>	<b>25.6</b>	<b>25.8</b>	<b>25.4</b>	23.1	19.1
More than 75	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	0.1	0.2

(a) Out of the total new credit for housing granted by the Bank.

For more information about this segment, please see under "Credit Risks" in the Report of the Board of Directors and Management as at December 31, 2022.



## Credit risk in respect of loans to private individuals (excluding housing loans)

Credit granted to individuals, whose repayment capacity is largely based on their household's earning capacity, is characterized by highly diverse borrowers and a wide variety of credit products (various types of loans, current accounts, credit cards) at a lower scale (on average) of credit per individual customer.

Individual customers' activity is almost entirely concentrated in the Banking Division.

To address the increase in credit granted to private individuals and given the wide span of control required to manage it, and with the aim of implementing adequate corporate governance, several functions have been enhanced, both in the Retail Banking Division - which constitutes the first line of defense, and in the Risk Management Division - which constitutes the second line of defense.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Banking Division, constitutes a key element in outlining the risk appetite and ongoing management of this domain.

The following are some of the key principles of the Bank's consumer credit policy: Assess each borrower's credit risk; base underwriting decisions on the borrower's debt service capacity, especially his/her income and/or based on the account management and/or based on information from the Central Credit Register; create a well-defined, structured chain of command for authorizing credit; adhere to fair business conduct practices (integrity; transparency; match products to customers' needs; fair pricing; address customer complaints); match the credit to the customers' needs and capacity; and increase awareness of the compliance aspects that could arise from credit provision.

The Bank extended and boosted its ongoing monitoring of its entire consumer credit portfolio, while adhering to strict underwriting processes and management and control at the individual borrower level, based, inter alia, on an internal set of metrics.

From time to time, and during 2022, the set of internal measures was revised, both for developments of the entire portfolio ("inventory") and the new credit risk profile, which are monitored on a regular basis, at least quarterly. The parameters under consideration address numerous aspects and characteristics which reflect diverse and complementary points of view about the new credit risk profile. Despite being "red lights" rather than restrictions (according to their formal definition), they reflect the limits of the desired risk appetite at the individual loan portfolio. In view of the private consumption trends in the Israeli economy, the return to the pre-coronavirus crisis consumption patterns and in the context of the macroeconomic changes that may affect households, especially due to the increase in interest and inflation rates, the Bank closely monitors, on an ongoing basis, the credit portfolio and the effects of these developments on the portfolio's risk profile.

For more information and details regarding macroeconomic effects, please see the section Macroeconomic effects at the beginning of this chapter.

For more information about this segment, please see under "Credit Risks" in the Report of the Board of Directors and Management as at December 31, 2022.

## Groups of borrowers<sup>2</sup>

The Bank conducts orderly monitoring processes to ensure it complies with the restrictions imposed by Proper Conduct of Banking Business Directive No. 313, “Restrictions on Indebtedness of a Borrower or Group of Borrowers”.

As at December 31, 2022, the Bank complies with these Directive’s restrictions.

In accordance with the policy for the adoption of accepted international standards, the Banking Supervision Department is adopting the Basel Committee provisions from 2014, which were revised in 2019, regarding the supervision of large exposures for which, on November 17, 2022, the Banking Supervision Department published a draft revision of Proper Conduct of Banking Business Directive 313 “Limitations on the Indebtedness of a Borrower and of a Group of Borrowers”. In accordance with this draft, new definitions will be established for a borrower / borrower group, and also adjustments were made to measure the exposure. In accordance with the Banking Supervision Department’s requirement, the Bank is preparing to conduct a quantitative survey to examine the impact of implementation of the provisions regarding exposures to counterparties or to a group of related counterparties.

For more information about borrower groups, please see under “Credit Risks” in the Report of the Board of Directors and Management as at December 31, 2022.

## Credit Exposure to Foreign Financial Institutions

For more information about credit exposure to foreign financial institutions, please see the risk review section in the Report of the Board of Directors and Management as at December 31, 2022.

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<sup>2</sup> A group of borrowers are all of the following together: the borrower, a person controlling it and all those controlled by them. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from an equity standpoint), including the corporation or any other entity under their control. An investee which is material to a holder that is not a controlling shareholder, and any entity under their control. Borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

## Part 5A - Counterparty Credit Risk

### Counterparty Credit Risk (CCRA)

The credit risk embodied in a derivative transaction is a measure of the loss the Bank may incur if the counterparty to the transaction fails to meet the terms of the transaction. Such risk, per a specific date, is defined as the total present value of the transaction as at that date plus the potential risk for a future loss. The potential is evaluated by the level of the expected volatility of the transaction's underlying asset and the period remaining until the completion of the collateral as agreed with the counterparty, after deducting enforceable netting agreements, as follows:

In the (marketable and over the counter) derivative market, Leumi implements mechanisms for credit risk mitigation of transactions between counterparties through netting mechanisms based on standard global legal agreements as well as on a the Credit Support Annex (CSA) mechanism between counterparties to a transaction, whether by containing exposure or through deeds of pledge. During the defined periods, netting is performed on a regular basis, according to the market data and exposure. The collateral is usually in cash, in the currencies agreed upon. Following are the types of such agreements currently in place at Leumi:

1. In over the counter (OTC) derivatives operations, the offsetting mechanisms are based on a standard international agreement infrastructure or a local agreement infrastructure that complies with international standards, as well as netting arrangements for the purpose of exposure containment, all in accordance with the provisions of the Transactions in Financial Assets Law. Thus, for example, the Bank enters into ISDA and CSA agreements with international parties and local customers active in the capital market. In addition, with a view to reducing counterparty risk, there is a major shift towards central clearing for interest rate derivatives in major currencies. As part of the ISDA agreements to which Bank Leumi is party, there is currently no correlation between a lowering of Leumi's credit rating and changing the collateral amount. In September 2021, Leumi started applying IOSCO's Uncleared Margin Rules (UMR), which require entities that exceeded a quantitative threshold (EUR 50 billion) to deposit IMs with an unaffiliated third party custodian for non-centrally cleared transactions.
2. In activities in marketable derivatives abroad - in activity with existing customers the offsetting and netting mechanisms are based on agreements consistent with the provisions of the Transactions in Financial Assets Law. The activity with members of the clearing system also include offsetting and netting mechanisms that are based on legal opinions.
3. In the local activity with MAOF (marketable derivatives), there are no specific netting agreements, netting is carried out in practice against the customers in accordance with the management terms that match ISDA standards, and the activity is performed against deeds of pledge or solo.
4. In the activity involving SFT transactions (repo, reverse repo, lending of foreign currencies) with foreign counterparties, changes were made to the offsetting mechanisms in accordance with The Global Master Securities Lending Agreement (GMSLA) for borrowing/lending transactions and GMRA for repo/reverse repo transactions).

Credit facilities for customers' activity are set by individual credit committees in accordance with the Bank's credit policy, subject to the restrictions imposed by the Board of Directors. The considerations affecting the credit facility amount include, inter alia, credit risk analysis and business profile, including the collateral offered as backup for the credit arising from the activity.

The facilities for countries, banks and financial institutions are set by a dedicated committee with the participation of representatives from the relevant divisions, subject to the restrictions set in the Group's investment policy and market risk management.

Customer managers in the business lines are in charge of and monitor counterparty credit exposures in derivatives transactions.

The Capital Markets Division closely monitors the activity of the Capital Markets Division's customers and also performs an entity level control over the control of the customers managers regarding their customers' derivatives activity.

The Capital Markets Division is responsible for the models and parameters for calculating the derivatives collateral requirement, the procedures for customers' transactions involving derivatives, and the setting of the business requirements in the IT systems which measure compliance with the boundaries of the activity.

The Risk Management Division serves as a second line of defense, recommends to the Board of Directors the risk management policy, is responsible for reporting the exposures to the Board, and is responsible for validating the models and criteria employed to manage the risk.

On December 1, 2021, March 15, 2022, and April 7, 2022 the Banking Supervision Department published circulars revising Basel Committee provisions regarding counterparty credit risk. For more information regarding the implementation of the new directive, see the chapter dealing with regulatory and other changes in measuring the capital requirements in this report.

The information in this section constitutes “forward-looking information”. For the meaning of the term, please see the section entitled “Forward-Looking Information”.

## Analysis of Counterparty Credit Risk (CCR) Exposure by Regulatory Approach (CCR1)

	A	B	D	E	F
	<b>December 31, 2022</b>				
	Replacement cost	Potential future exposure	Alpha used to calculate regulatory EAD	EAD after CRM	RWA
	In NIS millions				
1	The standardized approach for counterparty credit risk - SA-CCR (for derivatives) <sup>(a)</sup>				
	9,115	15,789	1.40	34,862	12,392
3	The comprehensive approach to credit risk mitigation (for securities financing transactions)				
	-	-	-	12,397	37
6	<b>Total</b>				
	9,115	15,789	1.40	47,258	12,429

	A	B	E	F
	<b>December 31, 2021</b>			
	Replacement cost	Potential future exposure	EAD after CRM	RWA
	In NIS millions			
1	Current exposure method <sup>(a)(b)</sup>			
	6,530	15,813	13,685	4,488
3	The comprehensive approach to credit risk mitigation (for securities financing transactions)			
	-	-	6,920	38
6	<b>Total</b>			
	6,530	15,813	20,605	4,526

(a) Presented after application of the revisions to the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022). Comparative results were not restated.

(b) Restated - amounts that were previously classified to this table were classified to the CCR8 table exposures to central counterparties.

## Credit Valuation Adjustment (CVA) Capital Charge (CCR2)

	A	B	A	B
	<b>December 31</b>			
	<b>2022</b>		<b>2021</b>	
	EAD after CRM	RWA	EAD after CRM	RWA
	In NIS millions			
3	Total portfolios for which CVA is calculated according to the standardized approach <sup>(a)</sup>			
	34,851	3,323	13,336	1,770

(a) Presented after application of the revisions to the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022). Comparative results were not restated.

## Standardized Approach of Counterparty Credit Risk (CCR) Exposures by Regulatory Portfolio and Risk Weights<sup>(a)</sup> (CCR3)

	A	B	C	D	E	F	I	
	December 31, 2022 <sup>(b)</sup>							Total credit exposure
Regulatory portfolio / risk weight	0%	2%	20%	50%	75%	100%	e	
	In NIS millions							
Sovereignties	3,034	-	44	-	-	-	-	3,078
Public sector entities (PSEs) other than the central government	-	-	-	92	-	-	-	92
Banks, including multilateral development banks (MDBs)	-	-	11,723	182	-	40	-	11,945
Securities firms	-	-	12,286	6,144	-	-	-	18,430
Corporations	-	-	-	37	-	4,214	-	4,251
Regulatory retail portfolios	-	-	-	-	-	100	-	100
Other assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3,034</b>	<b>-</b>	<b>24,053</b>	<b>6,455</b>	<b>-</b>	<b>4,354</b>	<b>-</b>	<b>37,896</b>

	A	B	C	D	E	F	I	
	December 31, 2021 <sup>(b)</sup>							Total credit exposure
Regulatory portfolio / risk weight	0%	2%	20%	50%	75%	100%	e	
	In NIS millions							
Sovereignties	2,770	-	-	-	-	-	-	2,770
Public sector entities (PSEs) other than the central government	-	-	-	46	-	-	-	46
Banks, including multilateral development banks (MDBs)	-	-	6,116	224	-	137	-	6,477
Securities firms	-	-	3,683	1,025	-	-	-	4,708
Corporations	-	- <sup>(c)</sup>	326	1	-	1,532	-	1,859
Regulatory retail portfolios	-	-	-	-	-	108	-	108
Other assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,770</b>	<b>-</b>	<b>10,125</b>	<b>1,296</b>	<b>-</b>	<b>1,777</b>	<b>-</b>	<b>15,968</b>

- (a) The disclosed balances refer to the credit exposures used in calculating the capital requirement, after applying credit risk mitigation techniques. The exposures do not include exposures to central counterparties (CCPs) reported in Table CCR8 below.
- (b) Presented after application of the revisions to the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy as at December 31, 2022). Comparative results were not restated.
- (c) Restated - amounts that were previously classified to this table were classified to the CCR8 table exposures to central counterparties.

Composition of Collateral for Counterparty Credit Risk (CCR)<sup>(a)</sup> Exposure (CCR5)

	A	B	C	D	E	F
	<b>December 31, 2022<sup>(b)</sup></b>					
	Collateral for derivatives transactions			Collateral for securities financing transactions (SFTs)		
	Fair value of received collateral		Fair value of posted collateral		Fair value of	Fair value of posted
	Encum-bered	Unencum-bered	Encum-bered	Unencum-bered	received collateral	of posted collateral
In NIS millions						
Cash - Local currency	-	515	-	1,730	331	553
Cash - Other currencies	-	18,371	-	9,462	3,621	2,482
Local sovereign debt	-	25,626	953	-	580	347
Other sovereign debt	2,027	69	2,245	5,429	111	-
Government agency debt	-	-	-	-	7,392	1,592
Corporate bonds	530	-	1,220	-	341	2,245
Shares	-	-	-	-	22	5,854
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>2,557</b>	<b>44,581</b>	<b>4,418</b>	<b>16,621</b>	<b>12,397</b>	<b>13,073</b>

	A	B	C	D	E	F
	<b>December 31, 2021<sup>(b)</sup></b>					
	Collateral for derivatives transactions			Collateral for securities financing transactions (SFTs)		
	Fair value of received collateral		Fair value of posted collateral		Fair value of	Fair value of posted
	Encum-bered	Unen-cumbered	Encum-bered	Unen-cumbered	received collateral	of posted collateral
In NIS millions						
Cash - Local currency	-	252	-	62	1,025	1,598
Cash - Other currencies	-	11,767	-	8,768	1,022	849
Local sovereign debt	-	1,927	1,004	-	1,678	1,076
Other sovereign debt	-	110	-	5,493	-	-
Government agency debt	-	-	-	-	3,191	-
Corporate bonds	-	-	-	-	-	1,191
Shares	-	-	-	-	4	2,924
Other collateral	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>14,056</b>	<b>1,004</b>	<b>14,323</b>	<b>6,920</b>	<b>7,638</b>

- (a) The amounts relate to collateral deposited or received in respect of exposures arising from the counterparty credit risk associated with derivatives or securities financing transactions, including transactions settled through a central counterparty (CCP).
- (b) Presented after application of the revisions to the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as of December 31, 2022). Comparative results were not restated.

## Credit derivatives exposures (CCR6)

As of December 31, 2022 and December 31, 2021, the Bank has no credit derivative transactions that were bought or sold.

## Exposures to central counterparties (CCR8)

	A	B	A	B
	December 31			
	2022		2021	
	EAD after CRM <sup>(b)</sup>	RWA <sup>(b)</sup>	EAD after CRM <sup>(c)</sup>	RWA <sup>(c)</sup>
	In NIS millions			
<b>1 Exposures to qualifying central counterparty (QCCP)<sup>(e)</sup></b>	<b>3,987</b>		<b>115</b>	<b>185</b>
Exposures to transactions with QCCP (excluding primary unencumbered collateral and transfers to risk reserve),				
<b>2 of which:</b>	<b>3,922</b>		<b>112</b>	<b>185</b>
<b>3 (I) OTC derivatives<sup>(d)</sup></b>	<b>1,177</b>		<b>24</b>	<b>9</b>
(II) Marketable derivative transactions				
<b>4 on the stock exchange<sup>(d)</sup></b>	<b>2,745</b>		<b>88</b>	<b>176</b>
<b>7 Unencumbered primary collateral</b>	<b>1,273</b>		<b>-</b>	<b>-</b>
<b>9 Funded transfers to risk fund</b>	<b>65</b>		<b>3</b>	<b>125</b>
				<b>-(a)</b>

- (a) The risk-weighted assets for the risk fund were included in the series of exposures to the QCCP transactions above, in accordance with the formula for calculating the risk-weighted assets for central counterparties in Proper Conduct of Banking Business Directive No. 203.
- (b) Presented after application of the revisions to the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for additional details, see under Capital and Capital Adequacy in the Report of the Board of Directors and Management as at December 31, 2022). Comparative figures were not restated in accordance with this directive.
- (c) Restated - amounts that were previously classified to the CCR1 table - analysis of exposure to counterparties credit risk were classified to this table.
- (d) Also includes clearing systems members trading exposures that meet the conditions for risk weights of 2%/4% in accordance with directive 203A.
- (e) The EAD amounts after CRM do not include primary collateral amounts that appears in item 7 below, in accordance with directives 203A and 203.



## Part 6 - Market Risk

### Market Risk (MRA)

Market risk is defined the risk of a loss arising from a change in the value of assets and liabilities due: to changes in price levels in the markets, interest rates, exchange rates, inflation rate and stock prices. Market risk exposure is reflected in the financial performance, in the fair value of the assets and liabilities, in shareholders' equity and in cash flows.

The Bank complies with the Banking Supervision Department's directives regarding management of the Group's market risks, including Proper Conduct of Banking Business Directive No. 333, "Interest Rate Risk Management", and No. 339, "Market Risk Management". To implement these directives, the Bank established basic principles and control mechanisms for these risks, including the purviews of management and the Board of Directors, defining the means of control and tools for measuring risk and the means of control and oversight of these risks, while implementing corporate governance which includes three lines of defense. For a description of the organizational structure and risk management purviews, please see the section entitled "Additional Information on Risk Exposure and Assessment".

During the reporting period, there were no significant changes in the corporate governance structure, policies and market risk management. We shall note that the Bank of Israel has approved to alter the measuring method, for regulatory capital purposes, of pension liabilities and assets designed to hedge these liabilities, as outlined above.

From the end of 2021, there has been a step up with regard to the price increases in the developed countries with an emphasis on the United States and Europe. These price increases are a result of the consequences of the coronavirus crisis relating to the supply chains and the flow of substantial funds from the various central banks, of the effects of the war in Ukraine, including on energy prices, and as a result of other effects related to the demand side in the context of wage increases in the labor market.

The increase in inflation rates and inflation forecasts has resulted in central banks launching sharp interest rate increases in order to slow down price increase rates, even at the cost of a significant slowdown in economic activity. In general, 2022 was also characterized by significant decreases in prices of the leading stock indices and a moderate opening of credit spreads. In the fourth quarter of 2022, the interest rate increases of the central banks in Israel and around the world continued and after three quarter of sharp drops in the stock markets, an increase was recorded in the leading stock indices and a certain reduction in the negotiable credit spreads.

The Bank tracks and monitors developments, applying stringent risk management practices, applying stress scenarios, and continuously examining the development of events and modes of operation in order to prepare in advance and adapt its activity as needed.

#### The Corporate Governance Structure for Market Risk Management

In addition to information regarding the corporate governance structure of the risk management at the Bank - which is described in the section entitled "Additional Information on Risk Exposure and Assessment" - following is additional information regarding market risk management:

#### First line of defense - Capital Markets Division

The Capital Markets Division is responsible for assuming the risk while analyzing and understanding it throughout the transactions' life. The Division manages the Bank's own (nostro) account, operates the Bank's dealing room for trading and brokering in currencies, interest rates, derivatives and securities, and is responsible for financial management, which includes developing financial products and investment products as well as managing the Group's assets and liabilities. Control procedures are implemented in the dealing rooms, which are also monitored on an ongoing basis for market risks, operational risks and embezzlement and fraud risks by the Planning Room of the Division's Risk Management Department. The Capital Markets Division is aided by Leumi's investment arm – Leumi Partners.

The Asset-Liability Committee (ALCO), led by the Head of the Capital Markets Division, is responsible for managing the assets, liabilities and financial investments according to the decisions of the Board of Directors and management, with focus on balance sheet structure, transfer prices, required liquidity and liquidity reserve investments, capital structure and the policy for raising financing resources and meeting the Group's restrictions and policies.

### Second line of defense - Risk Management Division

The Division is responsible for examining the market and liquidity risks management from a comprehensive perspective, to formulate the risk policy and risk boundaries from an overall perspective of the Bank's own (nostro) account and dealing rooms, the Bank's non-financial investments and its pension portfolio. It is also responsible for developing and challenging risk assessments of material transactions and activities, such as approval of products, investments, and new transactions; developing methodologies; validating material models; monitoring market variables and specific investments; performing stress scenarios, etc.

### Third line of defense - the Internal Audit Division

The Internal Audit Division is responsible for conducting independent, objective audits while the challenging controls, processes and automated systems in the banking corporation. Audits are usually performed retroactively on the first and second lines of defense, ensuring implementation of the instructions of management and the Board of Directors.

### The risk appetite

The Group's risk appetite is reflected in the level of market risk exposure that the Group is prepared to undertake in order to achieve its business goals and the required return for its shareholders. Alternatively, risk appetite has been defined as the effect of an adverse event that the Group is willing to bear. The risk appetite includes qualitative statements relating to the level of risk that is acceptable to the Board of Directors and senior management and quantitative restrictions for losses that the Group is prepared to absorb under scenarios of various severity levels.

### Market Risk Management Policy

The Market risk management policy is an expression of the Group's market risk management strategy, alongside existing procedures for identifying, measuring, monitoring, developing and controlling market risk. The policy is designed, on the one hand, to support the achievement of business targets while assessing the risks and rewards that may arise from exposure to the risks compared with the expected gains therefrom and, on the other hand, to mitigate the risk level arising from the Bank's ongoing activities, including by maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite for its own account, dealing rooms and market exposure across the entire Leumi Group. The policy outlines the corporate governance, division of organizational responsibility and escalation mechanisms. The risk appetite is reflected in set restrictions.

As part of the market risk management policy, the Board of Directors prescribed restrictions for each material market risk. In addition, restrictions were placed at the Chief Risk Officer level as well as additional restrictions complementing them. The purpose of the restrictions is to limit the damage that can be caused as a result of unexpected changes in various market risk factors, such as interest rates, inflation, exchange rates, marketable credit spreads and stock prices.

The market risks are routinely managed at the Group level.

Market risk management is performed by two risk centers – the banking book and the trading book.

In order to oversee and monitor the implementation of the market risk management policy, the Board of Directors receives, once every quarter, a report on the main market risk exposures vs. the restrictions placed and main risks by business line, product and risk center, as well as reports on unusual events.

### The banking book

The market risks embodied in the banking book arise from the Bank's core activities (primarily credit granting, deposit taking and securities investments in the available-for-sale portfolio and the held-to-maturity portfolio). The key market risks in the portfolio are interest rate risk, marketable credit spread risk and underlying exposures. The main tools for managing the exposures in the banking book are: the price policy; the management of the Bank's own (nostro) available-for-sale portfolio and held-to-maturity portfolio; the issue of debt instruments; and hedging through derivatives. The hedging policy enables to narrow down and/or expand risk, as needed, by changing the Bank's position in accordance with the risk appetite defined by the Board of Directors.

As part of the exposure management tools, the Bank hedges the exposures to foreign currency and interest rate risks by derivative financial instruments, which help maintain the desired position within the prescribed risk appetite and limits. In addition, activities in derivatives are performed other than for hedging purposes.

The Bank's policy on transactions in derivative financial instruments with entities required to meet capital adequacy requirements is a mechanism for the deposit of mutual collateral - Credit Support Annex (CSA) agreements. For more information, please see Part 5A - "Counterparty Credit Risk".

As part of examining its overall risk profile, the Bank regularly performs follow ups and monitors the exposures to market risks and losses that may occur under different scenarios, including stress scenarios, in order to reflect the overall market risks from a holistic perspective – risks of interest, basis risk, credit spreads, equity securities and mutual funds.

#### The investment policy

Leumi's own account (nostro) activity constitutes a principal tool for managing the assets and liabilities, linkage bases, routing capital and generating profits. It is managed by taking a comprehensive perspective, including addressing all risks and opportunities, including the own account portfolios, the non-financial holdings and assets and the liabilities of the pension portfolio. The investment policy is also subject to risk appetite limits set by the Board of Directors and capital charge required under the Basel Rules. The main risks embodied in the investment activity are interest rate, credit, liquidity and basis risks.

To maintain stability and a high level of liquidity, assets are managed by assuming a low to moderate risk for most investments and activities and assuming a higher risk for a smaller part of the investments and activities. Under the policy, a high level of diversification is maintained across products, countries, and types of risk and exposures to counterparties.

In its own portfolios, Leumi is exposed to credit and market risks in respect of countries, banks and financial institutions in Israel and abroad. The Bank also invests in asset-backed instruments (such as MBSs, CLOs, ABSs and others) as well as in highly diversified funds and shares.

Leumi has defined alert mechanisms for exceptional developments in the exposure status and/or markets, including:

- Setting reporting thresholds regarding deviations from quantitative limits, reporting methods and providing alternatives to handle deviations.
- Follow up mechanisms (watch lists) and red flags, which monitor market developments, compliance with limits, changes in assets, etc.

Leumi has drafted detailed contingency plans that include action plans in case predefined triggers are activated.

#### Trading book

The market risks embodied in the trading book arise from the Bank's activity as a market maker, broker and positions manager for its own (nostro) account. Pursuant to the Bank's policy, instruments are classified into the trading book, which aims to generate profits from trading, while responding quickly to changes in the markets.

Leumi trades in a very broad range of derivatives with various underlying assets: currencies, interest rates, indices, commodities and securities. Most of the activity is performed in common and highly liquid instruments in the local and global markets.

In the framework of Bank's own trading book, proactive actions are taken such as proactive exposures to interest, foreign currencies and marketable credit risks.

Almost daily, market risks in the trading book are identified, monitored, and controlled against the limits - by the Capital Markets Division.

Classification of securities into the trading book is performed for positions which are commercial in nature. The trading activities are subject to limitations, such as portfolio size restriction, interest exposure limit, foreign exchange exposure and more. The classification is based on policies and work procedures, pursuant to the regulatory requirements.

#### Exposure to market risks arising from employee pension liabilities

The Bank applies the US GAAP for employee benefits, as prescribed by the Bank of Israel. The long-duration actuarial obligation to employees is significantly affected by changes in the discount rate. The discount rate, which is used for calculating the actuarial liabilities for employee benefits, according to the Bank of Israel's directives, is based on the Government of Israel's bond yield curve plus the fixed spread curve of internally AA-graded corporate bonds which match the durations of the liabilities for employee benefits.

#### Manner of measuring the pension liabilities for regulatory capital purposes

At the beginning of September 2022, the Bank received the Bank of Israel's approval to change the measurement method of the pension liabilities for the purpose of calculating the regulatory capital. According to the new measurement method, each quarter, the Bank will calculate the change in the pension liabilities for Generation A employees resulting from changes in the discount interest rate, net of the change in the value of assets pre-designated to hedge these liabilities (hereinafter - the "net change in pension liabilities"). The change in the net pension liabilities, after tax, will be spread in a linear fashion, over 4 quarters, as of the quarter for which the calculation had been made.

The approval given by the Bank of Israel went into effect on July 1, 2022 and will be in effect until the earlier of the two: a) The financial statements as at December 31, 2029 (inclusive) or b) The reporting date on which the average pension liabilities for Generation A employees across the last 4 quarters will be lower than NIS 10 billion, linked to the CPI (from the known CPI as of July 1, 2022 to the known CPI on the relevant reporting date).

The purpose of this method is to moderate the volatility of the regulatory capital resulting from changes in the discount interest rate applied to the pension liability, and to the assets designated to hedge those liabilities.

At the same time, the Banking Supervision Department revoked its approval to measure the pension liabilities for regulatory capital purposes according to a moving average of market yields for a period of eight quarters ended on the relevant reporting date, which was in effect as of the financial statements as at June 30, 2016.

#### Risk-measuring methodologies and tools

Market risks are estimated using a variety of tools, which complement each other and are in line with the Bank's various exposures. The metrics used by the Bank for its overall management of market risks are also used for evaluating the potential financial damage from overall market and marketable credit exposures or from a specific portfolio having such exposures, under assumptions which take into account the interrelations between the various risk factors embodied in each portfolio and collectively - in all of them.

The Bank's market risk assessment methodology was approved by the Board of Directors and management.

**Value at Risk (VaR) model** is a statistical model that estimates the expected loss for the Bank, based on a historical simulation, in the course of a certain investment horizon and on a predetermined statistical level of assurance. The VaR may rise as the result of an increase in the volatility of the risk factors, or as the result of an increase in the inherent risk level of the banking activity. However, VaR is limited in its capability to forecast extreme scenarios, and is therefore used as a risk measure mainly in ongoing management, but may also raise a red flag in case of an extreme market scenarios.

When estimating a risk using VaR, adjustments are made according to the nature of a portfolio's activity and composition - for the trading book, it is calculated with a holding horizon of ten business days, and in the banking book - with a holding horizon of one month, both at a significance level of 99%. In addition, a back test process is performed regularly, in order to examine the model's validity.

Since the VaR may increase as the result of market volatility, and not necessarily as the result of a change in the risk profile, the Bank has set attention limits, at the Board level, on the VaRs of the banking and trading books. These limits are designed to serve as a warning sign for the risk level which, if reached, requires a reassessment of the risk profile and decisions regarding risk mitigation or temporarily readjusting the limit.

Following is the trading book VaR at the Group level, according to a historical simulation

Trading book VaR		
December 31		
	2022	2021
In NIS millions		
Actual	56	94

**Sensitivity analyses and stress scenarios** - The global and local markets are subject to periodic turmoil, reflected in an exceptionally high parameter volatility, deviating from normal historic behavior. Quantitative models such as VaR do not provide information on losses that may occur in extreme market conditions or beyond the set level of significance. As a result, to detect a change in any of the risk factors, risk is assessed using a variety of extreme market scenarios as well as sensitivity analyses. These include all of the risk factors to which the Bank is exposed and constitute part of the decision-making process for determining the overall investment strategy and preferred composition of the portfolio under the predetermined risk appetite restrictions. In calculating stress scenarios, expert assumptions are validated, as far as possible, against historic data as well as current market input.

#### The scope and nature of risk measurement systems

Main market risk management systems:

One system interfaces daily with all of the Bank's infrastructure systems and collects the Bank's stock of transactions. The system schedules the cash flows of all transactions, both by the expected payment date and by the interest rate change date. Based on the data, market risk and liquidity exposures are calculated subject to risk management assumptions.

Additional systems are used to manage and operate the nostro portfolio and dealing rooms positions, including pricing, trading and managing exposures.

## Market Risk Under the Standardized Approach (MR1)

The following table outlines the risk-weighted assets in respect of exposure to market risks under the standardized approach, which covers only some of market risk exposures.

		A	A
		December 31	
		2022	2021
		Risk-weighted assets	
		In NIS millions	
<b>Direct products</b>			
1	Interest rate risk (collective and specific)	5,656	4,508
2	Equity risk (general and specific)	32	41
3	Foreign exchange rate risk	719	428
<b>Options</b>			
7	The scenario approach	91	503
8	<b>Securitization</b>	112	112
9	<b>Total</b>	<b>6,610</b>	<b>5,592</b>

## Part 6A - Interest Rate Risk in the Banking Book (IRRBB) and Trading Book

### IRRBB Risk Management Objective and Policies

Interest rate risk is the risk of profit or capital due to interest rate fluctuations and arises from several sources, such as: Repricing risk (timing differences in repayment periods and repricing of assets, liabilities and off-balance sheet positions); yield curve risk (unexpected yield curve fluctuations); basis risk (imperfect correlation to changes in interest rates in different financial markets or different instruments similar to the repricing characteristics); and optional risk (change in timing or scope of cash flow from a financial instrument due to changes in market interest rates).

The Bank manages the interest risk and its effect on profitability, equity and the value of assets and liabilities under various assumptions of changes in interest rates, including scenarios of extreme changes in interest rates, based on historical scenarios and hypothetical simulations. The Bank also uses a model to estimate the change in projected finance income, as a result of interest rate changes and future spread and sensitivity of the regulatory capital, which includes the effects on the capital and the capital reserve of sudden interest rates change. These metrics have limitations at different hierarchy levels. In reality, the interest rate risk is measured and managed on the basis of various behavioral assumptions as to the repayment dates of the assets and liabilities. According to past experience, the Bank treats some of the current account balances as long-term liabilities. In addition, there are assumptions referring to prepayments of mortgages, on the basis of a statistical model that attempts to forecast prepayments based on interest rates. These estimates are of great importance in managing interest rate risks, inter alia due to the significant increase in these balances in recent years.

The following tools are employed for managing and hedging the exposures of the banking book: the price policy; management of the bonds portfolio; issuing debt instruments; off-balance sheet transactions, etc. As part of its assets and liabilities management system, the Bank financially hedges some of the interest rate risk through derivatives. In cases where the Bank chooses to follow a perfect hedge outline in accordance with the accounting principles, the changes in the value of the derivatives are classified to a capital reserve, similarly to the hedged asset. In cases where it is impossible to execute a perfect hedge, or the Bank opts not to execute a perfect hedge, the changes in fair value of the derivatives are recognized in profit and loss as they occur. Exposures management also relies, inter alia, on projections and assumptions about expected developments in the financial and capital markets in Israel and worldwide.

The exposure to interest rate changes is measured for both increases and decreases in interest rates in each linkage segment. The measurement is designed to test the sensitivity of the current value structure of assets and liabilities, including pension liabilities, to an interest rate change.

As a rule, interest sensitivity is measured at least once a month, with more frequent measurements being made for exposure management purposes.

#### Key behavioral models applied to risk management

The interest rate risk management models applied reflect customers' behavioral assumptions about the repayment dates of assets and liabilities, the main ones being:

- A model that assumes there is a hard core of (stable) current accounts that is insensitive to the interest rate, treating them as a long-term liability, which is spread over time and is based, inter alia, on a historical examination of the current account balances and customer behavior. In addition, the Bank assumes that there is an additional amount of current account balances that, in case of an interest rate hike, will be spread over a significantly shorter period of time than the stable current accounts.
- A model for forecasting early repayment of mortgages that examines, inter alia, the economic viability of early repayment as a function of the interest rate, customer preferences and behavioral assumptions based on past data.
- To predict early repayments of mortgage products in the nostro portfolio, the Bank uses an external system to examine, among other things, the duration of the current mortgage portfolio, and the effects of interest rate changes on the portfolio's duration and asset value.

The independently developed models undergo regular validation and calibration, including, among other things, due to changes in the macro environment, and vendor models are challenged using accepted methodologies.

Following are the main restrictions on exposure to market risks as at December 31, 2022

	in NIS million/% of equity
<b>Restriction of sensitivity of the fair value to concurrent interest rate changes of 1%</b>	
The banking book in NIS	4.5%
The banking book in foreign currency	1.5%
The trading book in NIS	300
The trading book in foreign currency	200
<b>Value at Risk (VaR) red flags</b>	
Banking book*	1,200
Trading book	250

\* The restriction for 2023 was revised at the beginning of 2023 in accordance with the risk appetite framework.



## Quantitative Information on Interest Rate Risk in the Banking Book (IRRBB) and Trading Book

### Adjusted net fair value of the financial instruments of the Bank and its subsidiaries

	December 31, 2022				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total
	In NIS millions				
Financial assets <sup>(b)</sup>	481,878	56,387	75,334	12,896	626,495
Other amounts receivable in respect of derivative and compound off-balance-sheet financial instruments	367,925	6,861	461,676	67,722	904,184
Financial liabilities <sup>(b)</sup>	421,430	25,772	135,220	20,300	602,722
Other amounts payable in respect of derivative and compound off-balance-sheet financial instruments	410,199	8,967	410,455	61,619	891,240
Net fair value of financial instruments	18,174	28,509	(8,665)	(1,301)	36,717
Effect of the liabilities for employee benefits	-	(13,385)	-	2	(13,383)
Effect of the spread of demand deposits over periods	6,774	-	1,863	277	8,914
Adjusted <sup>(a)</sup> net fair value of the financial instruments of the Bank and its subsidiaries	24,948	15,124	(6,802)	(1,022)	32,248
Of which: banking book	25,935	12,998	(6,941)	(882)	31,110

	December 31, 2021				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total
	In NIS millions				
Financial assets <sup>(b)</sup>	443,785	55,564	72,121	43,809	615,279
Other amounts receivable in respect of derivative and compound off-balance-sheet financial instruments	252,645	6,285	301,907	156,922	717,759
Financial liabilities <sup>(b)</sup>	385,053	23,118	113,714	60,208	582,093
Other amounts payable in respect of derivative and compound off-balance-sheet financial instruments	295,286	10,775	262,380	140,811	709,252
Net fair value of financial instruments	16,091	27,956	(2,066)	(288)	41,693
Effect of the liabilities for employee benefits	-	(16,731)	(16)	-	(16,747)
Effect of the spread of demand deposits over periods	1,481	-	1,551	4	3,036
Adjusted <sup>(a)</sup> net fair value of the financial instruments of the Bank and its subsidiaries	17,572	11,225	(531)	(284)	27,982
Of which: banking book	17,768	9,994	(696)	(296)	26,770

(a) Net fair value of the financial instruments, excluding non-monetary items and after the effect of liabilities in respect of employee benefits, which takes into account plan's assets and spread of demand deposits.  
For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 33A. in the financial statements as at December 31, 2022.

(b) Excluding total balance sheet derivatives, the fair value of off-balance-sheet instruments and of fair value of compound financial instruments.

Effect of scenarios of interest rate changes on the net adjusted fair value<sup>(a)</sup> of the Bank and its subsidiaries

	December 31, 2022				
	NIS		Foreign currency		Total <sup>(d)</sup>
	Non-linked	CPI-linked	USD	Other	
	In NIS millions				
<u>Concurrent changes</u>					
Concurrent increase of 1%	(610)	(87)	(466)	(9)	(1,172)
Of which: banking book	(572)	(41)	(466)	(8)	(1,087)
Simultaneous decrease of 1%	620	(385)	390	8	633
Of which: banking book	580	(433)	391	7	545
<u>Non-concurrent changes</u>					
<u>Steepening<sup>(b)</sup></u>	(787)	470	(386)	18	(685)
Of which: banking book	(792)	475	(392)	16	(693)
<u>Flattening<sup>(c)</sup></u>	709	(473)	(21)	(20)	195
Of which: banking book	723	(468)	(15)	(18)	222
Short-term interest rate increase	456	(299)	(301)	(22)	(166)
Of which: banking book	484	(276)	(296)	(19)	(107)
Short-term interest rate decrease	(457)	305	143	22	13
Of which: banking book	(486)	281	138	20	(47)
	December 31, 2021				
	NIS		Foreign currency		Total <sup>(d)</sup>
	Non-linked	CPI-linked	USD	Other	
	In NIS millions				
<u>Concurrent changes</u>					
Concurrent increase of 1%	(364)	597	(11)	30	252
Of which: banking book	(305)	636	(45)	28	314
Simultaneous decrease of 1%	62	(1,248)	(103)	(33)	(1,322)
Of which: banking book	-	(1,290)	(100)	(31)	(1,421)
<u>Non-concurrent changes</u>					
<u>Steepening<sup>(b)</sup></u>	(669)	916	(12)	23	258
Of which: banking book	(640)	926	(47)	22	261
<u>Flattening<sup>(c)</sup></u>	621	(880)	(158)	(17)	(434)
Of which: banking book	602	(882)	(135)	(16)	(431)
Short-term interest rate increase	458	(432)	(196)	(3)	(173)
Of which: banking book	464	(416)	(183)	(3)	(138)
Short-term interest rate decrease	(451)	449	208	3	209
Of which: banking book	(461)	433	195	3	170

(a) Net fair value of the financial instruments, excluding non-monetary items and after the effect of liabilities in respect of employee benefits, which takes into account plan's assets and spread of demand deposits.

(b) Steepening - short term interest rate decrease and long-term interest rate increase.

(c) Flattening - short term interest rate hike and long-term interest rate decrease.

(d) After netting effects.

Effect of scenarios of interest rate changes on net interest income and on noninterest finance income<sup>(a)</sup>

	For the year ended December 31					
	2022			2021		
	Interest income	Noninterest finance income	Total	Interest income	Noninterest finance income	Total
In NIS millions						
<u>Concurrent changes</u>						
Concurrent increase of 1%	1,098	(150)	948	1,092	191	1,283
Of which: banking book	1,098	(69)	1,029	1,092	254	1,346
Simultaneous decrease of 1%	(1,098)	153	(945)	(1,464)	(154)	(1,618)
Of which: banking book	(1,098)	69	(1,029)	(1,465)	(253)	(1,718)

(a) After netting effects.

The sensitivity of the income in the table is a theoretical estimate that was calculated on the basis of a concurrent change of all interest curves, using assumptions regarding the deposits and credit spreads, and changes in the structure of assets and liabilities under a scenario. During the fourth quarter and in view of the interest rate environment, the underlying data of the calculation were adjusted.

## Additional Information on Interest Rate Risk

### Total exposure of the Bank and its subsidiaries to interest rate changes

	December 31, 2022				
	Demand of up to one month	More than one month and up to three months	More than three months to one year	More than one year and up to three years	More than three years and up to five years
	In NIS millions				
Financial assets <sup>(a)</sup>	445,747	20,937	34,173	55,713	29,647
Other amounts receivable <sup>(b)</sup>	213,708	227,539	207,658	126,976	56,668
Financial liabilities <sup>(a)</sup>	338,891	42,729	106,132	66,554	19,734
Other amounts payable <sup>(b)</sup>	197,990	265,374	189,021	113,864	53,887
Exposure to interest rate changes	122,574	(59,627)	(53,322)	2,271	12,694
More information on exposure to interest rate changes					
<b>a. By nature of activity<sup>(e)</sup></b>					
Exposure of the banking book	114,314	(33,374)	(68,371)	(936)	13,300
Exposure of the trading book	8,260	(26,253)	15,049	3,207	(606)
<b>b. By linkages bases<sup>(e)</sup></b>					
Non-linked NIS	129,301	(62,888)	(37,779)	(17,190)	6,958
CPI-linked NIS	1,006	1,875	1,442	8,314	5,154
Foreign currency (including linked to foreign currency)	(7,733)	1,386	(16,985)	11,147	582
<b>c. Effects of exposure to interest rate changes<sup>(d)</sup></b>					
Effect of the liabilities for employee benefits	-	-	(434)	(1,420)	(569)
Effect of the spread of demand deposits over periods	91,035	(6,124)	(22,285)	(31,614)	(7,919)
Effect of early repayment of housing loans	580	759	2,756	3,472	596
Effect of backed assets	31	50	274	626	442

- (a) Excluding total balance sheet derivatives, the fair value of off-balance-sheet instruments and of fair value of compound financial instruments, after the effect of spread of demand deposits over periods.
- (b) Receivables and payables in respect of derivative, compound and off-balance-sheet financial instruments after the effect of liabilities for employee benefits, which takes into account the plan's assets. Compound financial instruments were classified according to each instrument's effective average life as exposure to their interest rates cannot be reflected by their classification into repayment periods of cash flows or nearest interest rate change date.  
Weighted average by fair value of the average duration.
- (c) The effects on the duration and internal rate of return (IRR) relate to the effects of each of the models on the total balance in the item.
- (d) The reported duration is the difference between the duration of the total assets and the duration of the total liabilities.

December 31, 2021										
Over five years and up to ten years	Over ten years and up to twenty years	More than twenty years	Without loan term	Total fair value	Internal rate of return In %	Average effective life <sup>(c)</sup> In years	Total fair value	Internal rate of return In %	Average effective life <sup>(c)</sup> In years	
26,736	9,772	3,566	204	626,495	4.11%	1.05	615,279	1.92%	1.19	
65,872	3,975	1,788	-	904,184	-	1.37	717,759	-	1.65	
15,618	4,127	6	17	593,808	3.83%	0.75	579,057	0.52%	0.82	
70,044	8,585	5,858	-	904,623	-	1.58	725,999	-	2.06	
6,946	1,035	(510)	187	32,248	-	-	27,982	-	-	
5,185	1,291	(486)	187	31,110	-	0.04	26,770	-	(0.15)	
1,761	(256)	(24)	-	1,138	-	0.01	1,212	-	0.02	
3,517	2,232	639	158	24,948	-	0.02	17,572	-	0.03	
902	(2,008)	(1,561)	-	15,124	-	(2.09)	11,225	-	(2.74)	
2,527	811	412	29	(7,824)	-	0.10	(815)	-	0.01	
(2,519)	(4,904)	(3,537)	-	(13,383)	2.22%	14.55	(16,747)	0.65%	16.39	
(10,987)	(3,192)	-	-	8,914	3.71%	0.80	3,036	0.46%	0.89	
(353)	(4,595)	(1,810)	-	1,405	(0.23%)	(0.83)	453	(0.45%)	(0.89)	
331	(837)	(917)	-	-	(0.01%)	(5.37)	-	0.38%	(7.34)	

#### Additional disclosure regarding compound financial instruments

Fair value, effective average life and effect of the interest rate changes and of hypothetical changes in the interest rates on the fair value of compound financial instruments of the Bank's and its consolidated companies

<b>December 31, 2022</b>						
	Fair value In NIS millions	Average effective life In years	Fair value assuming changes in interest rates			
			Increase of:		Decrease of:	
			2%	1%	2%	1%
Foreign currency segment						
<u>Compound financial assets:</u>						
Backed assets	10,568	3.15	9,875	10,195	11,170	10,863
Total compound financial assets	10,568	3.15	9,875	10,195	11,170	10,863
Total change in the fair value of compound financial instruments, net as a result of interest rate changes	10,568	3.15	9,875	10,195	11,170	10,863
<b>December 31, 2021</b>						
	Fair value In NIS millions	Average effective life In years	Fair value assuming changes in interest rates			
			Increase of:		Decrease of:	
			2%	1%	2%	1%
Foreign currency segment						
<u>Compound financial assets:</u>						
Backed assets	9,508	2.76	8,810	9,205	9,807	9,691
Total compound financial assets	9,508	2.76	8,810	9,205	9,807	9,691
Total change in the fair value of compound financial instruments, net as a result of interest rate changes	9,508	2.76	8,810	9,205	9,807	9,691

For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 33A. in the financial statements as at December 31, 2022.

Disclosure of interest exposures according to the economic valuation method\*

Summary of exposures to unexpected interest rates changes at the Group level (before the tax effect)

Scenario	The potential change in economic value as a result of the scenario					
	December 31, 2022			December 31, 2021		
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
In NIS millions						
<b>in NIS</b>						
Banking book	(1,335)	1,050	(87)	(530)	(191)	(30)
Trading book	(80)	84	(8)	(98)	104	(10)
<b>In foreign currency</b>						
Banking book	(476)	400	(42)	(72)	(62)	(3)
Trading book	-	-	(1)	37	(7)	3

\* The difference between the exposures in the table describing the scenarios of interest rate changes on the net fair value and the economic value exposures presented here stems from a difference in the manner of dealing with net pension obligations.

During 2022, there was an increase in the fair value exposure for a 1% increase in interest, mainly a result of the effect of the provision of credit, including mortgages, which was partially offset by bond issuances and the raising and lengthening of public deposits. In addition, the increase in the interest rate recorded during the year had an effect on the sensitivity of the value of assets and liabilities to changes in the interest rate.

## Part 6B - Equity Risk

Risk of investment in equity securities and mutual funds, caused by impairment of the investment in equity securities and mutual funds or by a decline in profits or dividends paid to the Group. This exposure is managed in accordance with the nostro portfolios' investment policy, which stipulates limitations on both the total investment amount and per-company amount.

According to the investment policy, the Bank's investment activities include investing in marketable mutual funds, indices and ETFs, rather than in specific shares, while maintaining a high level of diversification. In addition, investing activities is carried out by subsidiary Leumi Partners, pursuant to the Group's investment policy.

The fair value of the marketable equity securities is determined according to the market value and the fair value of the non-marketable equity securities is measured at cost (less a provision for impairment of a non-temporary nature).

### Investment in equity securities and mutual funds and the banking book

	December 31			
	2022		2021	
	Fair value	Capital requirements <sup>(a)</sup>	Fair value	Capital requirements <sup>(a)</sup>
	In NIS millions			
Non-marketable equity securities in the not held-for-trading portfolio	2,333	315	1,743	218
Marketable equity securities and funds in the not held-for-trading portfolio	2,020	273	2,601	325
Total	4,353	588	4,344	543

(a) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department at a rate of 13.5% and 12.5% as at December 31, 2022 and December 31, 2021, respectively.



## Part 7 - Liquidity Risk and Financing Risk

Liquidity risk is the risk to the banking corporation's profits and stability resulting from the inability to meet its liquidity needs.

Leumi maintains an adequate liquidity level. Leumi's main financing base in NIS is the deposits by the public and promissory notes, which constitute a stable financing source. In foreign currency, Leumi's main financing base is deposits of corporations, financial deposits and deposits of Israeli and foreign resident individuals.

The concentration of the sources is audited and managed by the Bank as part of its liquidity risk management. The Bank performs follow-up on the composition and concentration of sources by several categories, including: Customer size and type, single depositor. Ongoing daily measurement of the liquidity indicators, minimum coverage ratio, and monitoring of warning signs enable dynamic management and follow up to ensure that the sources are sufficiently diversified, and that the liquidity status and trends are adequately supervised and controlled.

The Leumi Group's liquidity risk management policy is part and parcel of its strategic business management and is adapted to the requirements of Proper Conduct of Banking Business Directive No. 342, Liquidity Risk Management, and also the requirements of Proper Banking Management Directive No. 221, Liquidity Coverage Ratio, and the requirements of Proper Conduct of Banking Business Directive No. 222 - Net Stable Funding Ratio, which adopt the recommendations of the Basel III Committee, with adjustments for the Israeli economy.

Proper Conduct of Banking Business Directive 221 - Liquidity Coverage Ratio is intended to ensure that a banking corporation will hold an adequate inventory of high quality unencumbered liquid assets, comprised of cash or assets that can be converted into cash in private markets with little or no loss of value, in order to meet the banking corporation's liquidity needs in an extreme liquidity scenario lasting 30 days.

The Directive prescribes the manner of calculating the liquidity coverage ratio, including the characteristics and operational requirements for a "stock of high-quality liquid assets" and sufficient buffers for them (the numerator); it also prescribes the net cash outflow expected under the stress scenario defined in the Directive for the next 30 calendar days (the denominator). The cash flow includes, inter alia, withdrawal of deposits of various types according to coefficients set forth in the Directive, utilization of credit facilities extended by the Bank, etc. less repayments of loans granted by the Bank, during the month, according to the cash inflow coefficients specified by the Directive.

As a result, changes in the amount or composition of liquid assets, changes in the amount of deposits of each type defined by the Directive, changes in the credit volume, and changes in the volume of credit facilities and their collateral for which liquidity is to be maintained, could lead to a change in the Bank's liquidity coverage ratio.

The regulatory requirement is to meet a liquidity coverage ratio of at least 100%.

The liquidity coverage ratio is routinely used on a daily basis to assist in monitoring and control of the liquidity risk. The report on the liquidity coverage ratio to the senior management is made at least once each month and to the Board of Directors at least once each quarter. In accordance with the Directive's requirements, in extreme situations the reporting frequency will be increased to weekly and even daily. In special situations, an immediate report will be submitted to the senior management and to the Board of Directors.

Proper Conduct of Banking Business Directive No. 222, Net Stable Funding Ratio, demands that banking corporations maintain a stable funding profile according to their asset composition and off-balance sheet operations. Maintaining a sustainable financing structure over time is intended to reduce the chances that disruptions in the banking corporation's permanent sources of financing will erode its liquidity situation in a way that will increase its risk of default and lead to a broader systemic scenario.

The regulatory requirement is to meet a net stable funding ratio of at least 100%. The Net Stable Funding Ratio must be reported to the senior management and Board of Directors at least once each quarter.

On January 1, 2023, updates of Proper Conduct of Banking Business Directives 221 and 222 entered into effect. The effect of these revisions on the date of implementation on the liquidity coverage ratio is a decrease of approx. 10%. Also after implementation, the LCR ratio is above the set limits.

In addition to measuring the regulatory liquidity coverage ratio, the Bank manages an internal model for estimating liquidity risk under a variety of scenarios relating to various market situations which pertain to the entire banking system and to Leumi in particular. The scenarios ensure that the liquid sources available to the Bank in all currencies, and separately in foreign currencies, provide sufficient liquidity to meet all of its liquidity requirements, under liquidity stress scenarios that last up to one month. The model is based on an assessment of the quality and diversification of the asset portfolio, using adequate safety cushions that were tested historically according to the risk levels, the scenario narrative and based on the opinion of professional entities. The model also estimates the stability of deposits by the public according to customer characteristics and assessments by business entities.

#### **The liquidity risk management policy**

Leumi maintains a proper liquidity level by investing its own portfolio in high-quality, diversified assets in NIS and foreign currencies, to enable it to meet all liquidity needs under a variety of stress scenarios, as well as through a policy of raising diversified and solid sources with different time ranges and emphasis on raising deposits from retailers and issuing long duration bonds.

The management of exposure to liquidity risks is regularly examined, controlled and discussed by the forums and committees at the Board of Directors, management and intermediate levels. In this framework, ongoing follow-up is conducted on cash flow forecasts, trends in various deposit segments, concentration of depositors and fund raising costs.

The restrictions on the liquidity ratio under Directive No. 221 were set at several levels of management, primarily by the Board of Directors. These restrictions constitute yet another reserve for meeting the liquidity scenarios.

Leumi monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by using a regulatory model, as well as internal models developed by Leumi in accordance with the Bank of Israel's directives and accepted international standards.

For more information on liquidity risk, please see Part 7 of the Annual Risk Management Report as of December 31, 2022.

## Liquidity Coverage Ratio (LCR) - Main Disclosures Table (LIQ1)

		For the three months ended December 31			
		2022		2021	
		(Average) total unweighted value <sup>(a),(d)</sup>	Total weighted value <sup>(b)</sup>	(Average) total unweighted value <sup>(a),(d)</sup>	Total weighted value <sup>(b)</sup>
		In NIS millions			
1	Total High-Quality Liquid Assets (HQLA)		190,351		189,707
	<b>Cash outflows</b>				
2	Retail deposits from individuals and small businesses	221,309	15,891	209,808	16,674
3	Of which: Stable deposits	60,080	3,004	63,271	3,182
4	Less stable deposits	93,519	10,856	105,495	12,261
4A	Deposits for a period exceeding 30 days	67,710	2,031	41,042	1,231
5	Unsecured wholesale financing	244,097	175,069	246,330	163,773
7	Of which: non-operational deposits (all counterparties)	244,095	175,067	246,329	163,772
8	Unsecured debts	2	2	1	1
10	Additional liquidity requirements	78,978	12,167	76,529	12,774
11	Of which: outflows in respect of exposure to derivatives and other collateral requirements	5,025	5,025	6,560	6,560
13	Credit lines & liquidity	73,953	7,142	69,969	6,214
14	Other contractual financing commitments	1,805	1,805	511	511
15	Other contingent financing commitments	65,803	1,890	51,378	1,559
16	<b>Total cash outflows</b>		206,822		195,291
	<b>Cash inflows</b>				
17	Secured loans (e.g., reverse repurchase transactions)	1,420	-	1,601	-
18	Cash inflows from regularly repaid exposures	86,831	57,873	59,890	39,883
19	Other cash inflows	14,994	3,735	8,532	1,921
20	<b>Total cash inflows</b>	103,245	61,608	70,023	41,804
	Total adjusted value <sup>(c)</sup>				
21	Total High-Quality Liquid Assets (HQLA)		190,351		189,707
22	Total cash outflows, net		145,214		153,487
23	Liquidity coverage ratio (in %)		131%		124%

- (a) Unweighted values are calculated as outstanding balances due or repayable by the holder within 30 days (for cash inflows and outflows).
- (b) Weighted values are calculated after applying appropriate safety cushions or inflow and outflow rates (for cash inflows and outflows).
- (c) Adjusted values will be calculated after activating (1) safety cushions and cash inflow and outflow rates; and (2) all relevant restrictions (i.e., restriction on high quality liquid assets at Tier 2b and Tier 2 and a restriction on inflows).
- (d) The values are calculated at the bank level, based on an average of 73 daily observations during Q4 2022 (78 observations during Q4 2021).

## Additional Disclosures regarding Liquidity Coverage Ratio (LIQA)

The exposure to liquidity risks is regularly managed at the Group level and a Group-level monitoring process is being developed. The subsidiaries establish liquidity risk management policies and manage their liquidity ratio independently, in line with the Group's policy and subject to the local regulatory framework applicable to each company. When managing its liquidity and calculating the LCR, the Bank takes into account possible limitations on transferring liquidity between the Bank and its subsidiaries.

The models serve as a dynamic management tool, allowing ongoing daily oversight, supervision and control of the liquidity status, and their results are reported to all the relevant management and control parties. In addition, reporting on the exposures is presented to the Board of Directors and management at least once each quarter.

The management of foreign currency liquidity is also affected by transactions in NIS and foreign-currency derivatives, which may cause currency fluctuations in the liquidity metrics, and are therefore closely monitored and managed.

### Composition of high-quality liquid assets by average balance per quarter

	For the three months ended December 31					
	2022			2021		
	NIS	Foreign currency	NIS and foreign currency	NIS	Foreign currency	NIS and foreign currency
	Total weighted value in NIS millions					
Total Tier 1 assets	158,882	27,178	186,060	147,075	34,042	181,117
Total Tier 2A assets	-	3,748	3,748	-	8,255	8,255
Total Tier 2B assets	345	198	543	75	260	335
Total high-quality liquid assets	159,227	31,124	190,351	147,150	42,557	189,707

### Composition of high-quality liquid assets as at the end of the period

	As at December 31					
	2022			2021		
	NIS	Foreign currency	NIS and foreign currency	NIS	Foreign currency	NIS and foreign currency
	Total weighted value in NIS millions					
Total Tier 1 assets	162,756	27,271	190,027	165,748	41,821	207,569
Total Tier 2A assets	-	5,111	5,111	-	8,241	8,241
Total Tier 2B assets	370	268	638	174	261	435
Total high-quality liquid assets	163,126	32,650	195,776	165,922	50,323	216,245

In accordance with the prescribed risk appetite, the Bank's Board of Directors sets restrictions for managing liquidity risk purposes. The Chief Risk Officer sets additional restrictions for ongoing management of liquidity risk.

## Net Stable Funding Ratio (NSFR) - Main Disclosures Table (LIQ2)

As at December 31, 2022					
	Unweighted value by repayment periods				Weighted value
	No repayment date	Up to six months	Six months to one year	One year or more	
	In NIS millions				
Available Stable Funding (AFS) items					
1 Equity:	61,818	-	-	12,884	74,702
2 Regulatory capital	61,818	-	-	-	61,818
3 Other equity instruments	-	-	-	12,884	12,884
4 Retail deposits from individuals and small businesses:	-	201,646	14,938	9,472	208,116
5 Stable deposits	-	71,324	3,037	2,060	72,703
6 Less stable deposits	-	130,322	11,901	7,412	135,413
7 Wholesale financing:	-	300,223	21,966	12,603	105,254
8 Operational deposits	-	-	-	-	-
9 Other wholesale financing	-	300,223	21,966	12,603	105,254
10 Liabilities with interdependent corresponding assets	-	654	-	497	-
11 Other liabilities:	-	7,006	5,618	10,707	13,516
12 Liabilities for derivatives for the purpose of NSFR	-		1,437		-
All other liabilities and equity not included in the above categories	-	7,006	5,618	10,707	13,516
13					
14 Total Available Stable Funding					401,588
Required Stable Funding (RSF) items					
15 Total High-Quality Liquid Assets (HQLA) according to NSFR					3,220
Deposits held in other financial institutions for operational purposes		-	-	-	-
16		-	-	-	-
17 Regularly repaid loans and securities:	42	139,176	29,219	244,591	278,746
Regularly repaid loans to financial institutions, secured by high-quality Tier 1 liquid assets	-	553	-	-	55
18					
Regularly repaid loans to financial institutions, secured by high-quality non-Tier 1 liquid assets, and regularly repaid unsecured loans to financial institutions	-	27,304	1,293	4,234	8,977
19					
Regularly repaid loans to non-financial wholesale customers, loans to retail customers and to small businesses, and loans to sovereigns, central banks and public sector entities, of which:	-	106,688	19,969	112,266	158,754
20					
With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203	-	-	-	-	-
21					
Regularly repaid housing loans secured by a mortgage, of which:	-	231	435	120,596	99,171
22					
With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203	-	58	96	31,118	22,859
23					
Securities not in default which do not qualify as high-quality liquid assets, including exchange traded shares	42	4,400	7,522	7,495	11,789
24					
25 Assets with interdependent corresponding liabilities	-	654	-	497	-
26					
26 Other assets:	-	-	-	-	23,284
27					
Physical traded commodities, including gold	-		-		-
28					
Assets deposited as a primary collateral for derivatives and contributions to default fund of central counterparties (CCPs)	-		4,719		4,011
29					
Assets for derivatives for the purpose of NSFR	-		2,084		647
30					
Liabilities for derivatives for the purpose of NSFR before deduction of deposited variable collaterals	-		389		389
31					
All other asset categories not included in the above categories	9,784	1,694	212	6,547	18,237
32					
Off-balance sheet items	-		170,110		7,704
33					
Total Required Stable Funding (RSF)					312,954
34					
Net Stable Funding Ratio (NSFR) (%)					128%

	As at December, 31, 2021				
	Unweighted value by repayment periods				Weighted value
	No repayment date	Up to six months	Six months to one year	One year or more	
	In NIS millions				
Available Stable Funding (AFS) items					
1 Equity:	51,834	-	-	9,226	61,061
2 Regulatory capital	51,834				51,834
3 Other equity instruments				9,226	9,226
4 Retail deposits from individuals and small businesses:	-	198,663	6,813	4,926	193,686
5 Stable deposits		73,837	2,780	1,118	73,904
6 Less stable deposits		124,826	4,033	3,809	119,782
7 Wholesale financing:	-	308,608	11,022	21,999	112,088
8 Operational deposits		-	-	-	-
9 Other wholesale financing		308,608	11,022	21,999	112,088
10 Liabilities with interdependent corresponding assets		679	-	291	-
11 Other liabilities:	-	7,830	1,006	12,000	12,503
12 Liabilities for derivatives for the purpose of NSFR				2,217	
All other liabilities and equity not included in the above categories					
13		5,613	1,006	12,000	12,503
14 <b>Total Available Stable Funding</b>					379,338
Required Stable Funding (RSF) items					
15 Total High-Quality Liquid Assets (HQLA) according to NSFR					3,676
Deposits held in other financial institutions for operational purposes					
16					-
17 Regularly repaid loans and securities:	316	113,405	21,554	238,577	260,595
Regularly repaid loans to financial institutions, secured by high-quality Tier 1 liquid assets					
18		1,603	-	-	160
Regularly repaid loans to financial institutions, secured by high-quality non-Tier 1 liquid assets, and regularly repaid unsecured loans to financial institutions					
19		19,911	302	3,286	6,423
Regularly repaid loans to non-financial wholesale customers, loans to retail customers and to small businesses, and loans to sovereignties, central banks and public sector entities, of which:					
20		89,628	19,370	110,043	148,035
With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203					
21		-	-	-	
Regularly repaid housing loans secured by a mortgage, of which:					
22		351	383	103,851	84,088
With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203					
23		80	108	29,062	20,244
Securities not in default which do not qualify as high-quality liquid assets, including exchange traded shares					
24	316	1,912	1,500	21,398	21,889
25 Assets with interdependent corresponding liabilities		679	-	291	-
26 Other assets:					19,221
27 Physical traded commodities, including gold				-	-
Assets deposited as a primary collateral for derivatives and contributions to default fund of central counterparties (CCPs)					
28				3,252	2,764
29 Assets for derivatives for the purpose of NSFR				1,770	-
Liabilities for derivatives for the purpose of NSFR before deduction of deposited variable collaterals					
30				412	412
31 All other asset categories not included in the above categories	5,542	2,193	347	7,963	16,045
32 <b>Off-balance sheet items</b>				148,689	6,798
33 <b>Total Required Stable Funding (RSF)</b>					290,290
34 <b>Net Stable Funding Ratio (NSFR) (%)</b>					131%

Leumi's NSFR relies on stable sources and high-quality assets.

The recognized regulatory capital as per Directive No. 222 amounting to NIS 61.8 billion, plus equity instruments amounting to NIS 12.9 billion, aggregate to NIS 74.7 billion. This amount is assigned a Net Stable Funding Ratio of 100%. Stable and unstable retail deposits which are assigned Net Stable Funding Ratio of 90% amount to NIS 226.1 billion, with total loans to the public as per the balance sheet amounting to USD 384.7 billion, that is to say, 59% of the loans in the balance sheets are funded by non-wholesale deposits.

Furthermore, the total amount of high-quality Tier 1 liquid assets as per Directive 222 is NIS 211.4 billion, which constitute approx. 30% of total balance sheet assets, have required stable funding ratio of 5% or less.

### Additional Information on Liquidity Risk and Financing Risk

Financing risk is the risk of an insufficiently stable financing source structure which fails to serve its designated uses in the long term.

The Bank has managed an extensive and diversified infrastructure of stable financing sources for various time periods. The Bank's main source of financing is deposits by retail customers. In addition, the Bank finances its activity through deposits made by commercial and business customers and by issuing notes payable. The sources are managed on an ongoing basis, separately for NIS and foreign currencies. Deposits by the public in foreign currency constitute approx. 30% of total deposits by the public. The Bank has a wide range of foreign currency sources from nonresidents, and from local retail, business and financial customers.

The Bank has a contingency plan in place for early identification handling of a liquidity crisis, which includes a system of warning signs that can indicate a change in the Bank's liquidity status. Upon the appearance of warning signs, a special forum at the Bank will convene to examine the need to activate the plan, based on the level of severity. The contingency plan includes a list of detailed operational measures outlining, among other things, the order of asset disposal, customer care policies, and systems of reporting to all business entities, the Board of Directors and the Bank of Israel.

Following is the development of the average balances

	2022				2021			
	Unweighted value of retail deposits				Unweighted value of retail deposits			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Up to one month	172,982	171,714	164,020	153,599	161,307	165,169	168,008	168,766
More than one month	39,468	42,057	53,848	67,710	47,755	45,700	43,936	41,042
Total	212,450	213,771	217,868	221,309	209,062	210,869	211,944	209,808

In 2022, there was an increase in the volume of retail NIS-denominated deposits, and the term of the deposits increased.

In 2022, there was an increase in the amount of bonds, promissory notes and subordinated bonds by approx. NIS 12.4 billion, net.

Pledged assets by balance sheet line item

	December 31, 2022			
		Of which: Assets used as collateral for a central bank	Unencumbe d assets	Total
	Pledged assets			
	In NIS millions			
Cash and deposits with banks	33,723	25,085	152,846	186,569
Of which: for securities loaned or sold under repurchase agreements	3,952	-	-	3,952
Securities	20,140	10,584	62,810	82,950
Of which: Israeli government bonds	11,763	10,584	20,973	32,736
Of which: foreign government bonds	7,314	-	9,681	16,995
Of which: Bonds of Israeli financial institutions	-	-	626	626
Of which: Bonds of foreign financial institutions	1,063	-	9,938	11,001
Of which: bonds of other Israeli entities	-	-	927	927
Of which: bonds of other foreign entities	-	-	5,310	5,310
Of which: asset-backed bonds or mortgage- backed bonds	-	-	10,999	10,999
Of which: Shares and funds	-	-	4,356	4,356
Securities borrowed or purchased under reverse repurchase agreements	3,034	-	-	3,034
Loans to the public	14,542	8,400	370,248	384,790
Other	-	-	41,649	41,649
Total assets	71,439	44,069	627,553	698,992



	December 31, 2021			
		Of which: Assets used as collateral for a central bank	Unencumbe d assets	Total
	Pledged assets In NIS millions			
Cash and deposits with banks	29,541	26,022	167,861	197,402
Of which: for securities loaned or sold under repurchase agreements	2,282	-	-	2,282
Securities	22,198	14,532	64,729	86,927
Of which: Israeli government bonds	15,712	14,532	14,568	30,280
Of which: foreign government bonds	5,979	-	20,533	26,512
Of which: Bonds of Israeli financial institutions	-	-	342	342
Of which: Bonds of foreign financial institutions	447	-	7,882	8,329
Of which: bonds of other Israeli entities	-	-	691	691
Of which: bonds of other foreign entities	-	-	6,882	6,882
Of which: asset-backed bonds (ABS) or mortgage-backed bonds (MBS)	60	-	9,472	9,532
Of which: Shares and funds	-	-	4,359	4,359
Securities borrowed or purchased under reverse repurchase agreements	2,447	-	-	2,447
Loans to the public	16,508	8,175	326,371	342,879
Other	-	-	26,799	26,799
Total assets	70,694	48,729	585,760	656,454

## Part 8 - Operational Risk

Operational risk is defined as the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

The Leumi Group engages in a wide range of financial activities and is therefore exposed to operational risks which include, inter alia: information security and cyber risks, technological risk, business continuity risk as well as embezzlement and fraud risks.

The risk management approach is consistent with the strategy of the Leumi Group, constitutes a basis for defining the risk tolerance, for the manner in which risk is managed, and for the corporate governance. It also determines the focus and emphases in operational risk management processes, allowing for informed and focused risk management, which prioritizes tasks and resources.

The regulatory capital required for operational risks is calculated using the standardized approach in the capital adequacy measurement directives of the Banking Supervision Department.

To mitigate potential damage in the event of risks materializing, the Leumi Group has a range of insurance policies covering various operational risks, including, inter alia, a banking insurance policy, a directors' insurance and officer insurance policy as well as a cyber insurance policy. The insurance policies are reviewed from time to time.

For more information on regulatory changes in the reporting period and anticipated changes regarding the measurement of capital adequacy, please see under Capital in the Report of the Board of Directors and Management as at December 31, 2022.

### Corporate governance structure

In addition to information regarding the corporate governance structure of the risk management at the Bank - which is described in the section entitled "Additional Information on Risk Exposure and Assessment" - following is additional information regarding operational risk management:

First line of defense - The business lines' managements, support units and Leumi Technologies are responsible for managing the operational risks in their respective purviews, both on an ongoing basis and for new projects and products.

Second line of defense - the Operational, IT and Cybersecurity Risk Department in the Risk Management Division is responsible for, and leads, the operational risk management process, while developing risk policy and risk tolerance recommendations, formulating methodologies, as well as professional responsibility for, guidance of and challenging of the effectiveness level (subject to materiality) the first line of defense in the risk management process.

Third line of defense - the Internal Audit Division. The Internal Audit Division is responsible for conducting independent, objective audits while the challenging controls, processes and automated systems in the banking corporation. Audits are usually performed retroactively on the first and second lines of defense, ensuring implementation of the instructions of management and the Board of Directors.

Management and Board of Directors' committees - Each quarter, the committees hold a discussion on the material exposures to operational risks. The operational risk management policy is brought before the Board of Directors for discussion and approval at a frequency not less than once every two years.

### The operational risk policy and management framework

The Group's operational risk management policy outlines Leumi's operational risk management principles, guidelines and framework, including: risk-oriented management adapted to each business line and a focus on risks with potentially significant consequences for the Bank's activity.

To allow the Board of Directors and management to exercise appropriate corporate governance, operational risk tolerance was defined as quantitative restrictions and qualitative statements.

The operational risk profile is periodically monitored and reported on a quarterly basis to the Bank's management and Board of Directors, serving as a basis for decision-making.

The Bank revises the operational risk map from time to time. The revision is made by the first line units, with the Risk Management Division providing guidance, challenging, and assistance. The process includes identification and (qualitative and quantitative) assessment of the risks and recommendations for minimizing the risks (risk mitigation plans). In addition, there is a system in place supporting risk reporting and documentation of controls, mitigation plans and failure events.

The Bank manages risks for material new projects and products on the basis of a methodology which includes risk identification and mitigation with the aim of complying with Leumi's business and operating goals.

Since the risks are cross-organizational, the Risk Management Division works to instill an advanced risk management culture, including reporting on incidents and drawing conclusions.

The main operational risk areas are as follows:

#### Information security and cyber risk

Leumi continues to promote the provision of financial services through digital platforms, expanding the use of advanced technologies. As a result, the risk of cyber-attacks is growing, as is Leumi's exposure to the materialization of cyber risks, respectively.

Cyberspace is highly dynamic and characterized by uncertainty in terms of the type, scope and force of the attacks. A materialization of a cyber event may result in monetary damage, theft of sensitive banking information, disruption of activity and operational continuity and even damage to the Bank's reputation.

Risk management and cyber security are implemented, with significant resources invested. The resources are invested according to the business strategy and risk tolerance.

As part of its effort to boost its cyber defenses and manage cyber risks, Leumi developed a cyber and tolerance policy, mapped its cyber risks, implements mitigation plans and recovery capabilities, and conducts cyber drills.

Leumi operates Fusion Center - a cyber protection center, which features a range of cyber security specialists who monitor, collect and manage intelligence and handle cyber incidents, with the purpose of identifying and neutralizing unusual incidents which may harm the Bank and its customers.

The increase in cyber attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains continues. The characteristics of the attacks are varied and include ransomware attacks, phishing and social engineering attempts. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and extensive and remote work by employees and suppliers.

Leumi takes several measures to mitigate the risks, including: implementing preventive and detective controls, conducting information security surveys, boosting monitoring to remove fictitious websites, rendering authorization management and control processes more stringent, and increasing awareness to information security guidance among the employees.

During 2022, no cyber incidents were discovered which affected Leumi's financial statements.

#### Technological Risks

Leumi attaches great significance to its technological infrastructure that serves its customers and employees enabling business and operational availability and continuity, and invests considerable resources to ensure this. The Bank implements a new product policy, which outlines the risk management processes involved in introducing new products, including new technological initiatives and innovation.

Leumi is implementing a business-technological (modernization) plan to achieve its business goals in the coming years. The plan is subject to stringent corporate governance.

### Business continuity risk

Leumi manages and implements processes with the purpose of allowing quick recovery in case of emergency and stress events, while minimizing the damage to the business activity. The processes include the following:

- A business continuity policy that defines corporate governance, principles, and the key processes in case of an emergency, including a series of responses and redundancy.
- A work framework that includes business continuity plans, business impact analysis based on risk surveys, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, recovery capabilities, including backup and recovery.

An emergency preparedness plan has been developed and implemented for two types of events - a brief emergency event and a prolonged emergency event. The policy, means, processes and solutions were adjusted to a wide range of scenarios, including a prolonged emergency event. A redundancy solution was defined, including resource redundancy (defining critical units and classifying employees for emergencies or prolonged emergency situations; training employees on versatility and back-up); physical redundancy; defining back-up facilities for critical units and technological redundancy: expanding infrastructure for emergency work and telecommuting.

### Outsourcing and Supplier Risk

Leumi contracts suppliers and sub-suppliers for various business needs and adopts new products and services developed by external entities. Its dependence on suppliers exposes the Bank to various risks, including business continuity disruption and information leakage. Such risks are managed on an ongoing basis through risk management and a new product, procurement processes, information security, business continuity and cyber security workflows and anchored accordingly in policy papers and procedures.

An outsourcing policy was formulated and is being implemented, addressing third party risk issues as part of the operational risk policy.

### Embezzlement

To address the embezzlement risk, the Bank works on several levels to increase awareness among all Bank employees, with emphasis on risk managers and heightened monitoring of employees on the verge of leaving the Bank, a speakup mechanism which encourages employees to report breaches, etc.

A chapter was dedicated to managing fraud and embezzlement risks as part of the operational risk management policy and a special embezzlement forum was appointed to handle the issue.

### Fraud

The expanded use of digital channels could increase exposure to embezzlement risks in terms of identity, money and information theft, as well as compromise functionality and cause customer information leaks and misuse of information. Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring.

### The human resource risk

The changes in the business and banking environment have had a bank-wide effect of the human capital domain as well, inter alia due to the need to adjust the work force and boost managerial skills in a changing world, including managing telecommuting and employee engagement. Leumi uses various means to handle risk, including: improving hiring capabilities, expanding hiring channels.

On December 31, 2022, the collective agreement on employee pay and benefits expired; the agreement was effective during 2019-2022. Negotiations are now being held between the Bank management and the employees' representatives for the signing of a new collective agreement.

For more information about operational risk and main risk areas, please see the "Operational Risks" section in the Report of the Board of Directors and Management as at December 31, 2022.

## Part 9 - Climate and Environmental Risk

Environmental and climate-related risks to the Bank are exposure to potential damage which may be caused as a result of events or processes related to the environment, including climate change.

Environmental risks arise from the Bank's exposure to activities which may potentially cause environmental damage or be effected therefrom, such as: greenhouse gas emissions, waste creation, air or water pollution, soil contamination, compromised biodiversity, deforestation and extreme weather events.

Environmental and climate-related risks are usually divided into three types:

- Physical risks - financial risks due to the exposure to damage from acute stress events related to climate or weather (such as heat waves, droughts, avalanches, floods, fires, storms and more) and/or exposure to damage from gradual chronic processes related to climate change (such as a rise in the sea level, an increasing average temperature).
- Transition risks - financial risks due to exposure to the transition process to an economy with low greenhouse gas emissions, which may include changes in climate and environmental policy, technological changes or changes in the public's preferences.
- Liability risk - financial risks due to the exposure to legal claims, in which the plaintiffs demand the imposition of responsibility and/or request compensation for damages or losses related to climate change.

The Bank is exposed to these risks both directly and indirectly.

Environmental risks may have a financial and non-financial impact on the Bank, such as: credit risk, market risk and liquidity risk, as well as operational risk, compliance risk, legal risk, regulatory risk, reputational risk (such as in a case where the Bank is attributed a connection to an environmental hazard, either directly as the creator of the hazard or indirectly as the financier of the hazard).

The Bank's Board of Directors considers the management of environmental and climate risks an integral part of the Bank's business strategy and goals, to preserve the Bank's stability, in view of its centrality and importance for the economy and the Israeli society and as a business-strategic opportunity. Leumi recognizes the economic, social and environmental responsibility assigned to it in accompanying and supporting our customers in the transition process through the provision of credit and supporting investments. Focus on the management and assessment of exposure to climate-related risk along with identification of the opportunities is an integral part of the process.

Management of environmental and climate risks is done in accordance with today's leading global practices and regulatory developments, for example, the work framework of the Task Force on Climate-Related Financial Disclosures (TCFD), which serves as a basis for regulations on the subject of environmental and climate risk management in the financial sector around the work and for guidelines and principles published from time to time by the Banking Supervision Department in Israel.

In December 2022, the Banking Supervision Department published another circular (in continuation to the circular dated December 5, 2021) which includes recommendations for disclosure regarding the Bank's risk management issues and environmental opportunities, including climate risks. These examples include a broader reference to how the Bank manages the environmental risk and opportunities, a broader description of the factors of environmental risk and opportunities that have been identified and their impact, as well as quantitative disclosure of indices and targets used by the Bank to manage environmental risks and opportunities.

### Corporate governance structure

Bank Leumi has formulated an organizational structure and framework for environmental and climate risk management that is integrated into the existing corporate governance and constitutes an integral part thereof. The framework includes the determining of a strategy and long-term targets, policy, allocation of responsibility between the various Bank units, reporting mechanisms and supervision and control mechanisms over the implementation of the policy and strategy.

The Board of Directors and its committees are responsible for defining the strategy and policy, determining the risk appetite and supervising their implementation. The management is responsible for the implementation of the Board of Directors' decisions on climate issues, setting of targets according to the risk appetite approved by the Board of Directors, identifying opportunities and monitoring the meeting of targets. The Risk Management Committee is responsible for supervising the climate and environmental risk management, approval of the risk management policy in the relevant areas, receipt of reports on significant changes in policy and holding periodic discussion regarding the policy once every two years.

For more information regarding the organizational structure for environmental and climate risk management, please see the chapter Corporate Governance in this report and in the ESG Report.

#### Climate risk management framework and policy

The Bank has formulated a framework and policy for managing environmental and climate aspects, which establishes principles for identifying and managing risks and defines the areas of responsibility and reporting mechanisms. In addition, it is formulating a work plan that includes improved methodologies and measurement methods. Alongside actions taken by the Bank to identify and map the exposure to climate and environmental risks and to reduce them.

The Bank is working to identify and promote business opportunities, encourages "green" initiatives, is developing the tools and expertise to develop financing products for "green" activity and invest in smart systems in order to preserve and develop the current situation. The Bank strives to reach a target of NIS 35 billion in financing such initiatives by 2030. In addition, the Bank is developing "green" products and value propositions for retail customers and is examining how to support its business customers in transitioning to sustainable activity. On December 31, 2022, the initiatives amounted to NIS 18 billion.

This constitutes forward-looking information, the materialization of which is uncertain and not under the Bank's sole control, taking into account that this is an "evolving" domain.

The Bank is formulating, assisted by a consulting firm, a methodology for evaluating the exposure potential of sectors in Israel to key risk factors in environmental and climate risk aspects and methodologies for evaluating individual credit risks to borrowers in the sectors. Implementation of the individual measurement will be carried out according to the risk and materiality based multi-year work plan.

In 2022, training was conducted for the business units that provide credit and make investments to identify activities and opportunities that contribute to reducing and dealing with environmental and climate aspects.

#### Identification and management of climate risks in principal risk management

The Bank recognizes that the identification and assessment of the environmental risk is part of an adequate risk assessment process and is working to implement environmental risk exposure management, including climate risk (physical risk and transfer risk), as follows:

- **Risk management as part of credit activity** - The Bank formulated a plan for the construction and assimilation of processes that will enable the identification, measurement, evaluation, monitoring, reporting and control of these risks, including ways of managing them and reducing their impact on the credit exposures.
- **Investments and nostro risk** - market and investment risk management policy determines guidelines for managing the risk, including combining environmental and climate risks in the investment decision making process and in the management of existing investments. The work plan to improve the methodologies and measurement tools for managing environmental and climate-related risks also include investments; the aim is to develop tools and expertise to promote environmentally-friendly measures and business opportunities.
- **Operational risk** - The Bank has set itself a goal that the direct and indirect impact of its activity will lead to a reduction in the negative effects of the environment. From 2013 until now, the Bank's carbon footprint has cumulatively declined by 49%.

For that purpose, for the past decade, the Bank has, among other things, held ISO 14001 certification, under which regulations related to environmental risks are managed and monitored, the Bank set long-term targets which aim to reduce the Bank's carbon footprint.

- **Reputational risk** - A policy has been formulated for the management of reputational risk, which is adapted to the Bank's strategy and includes reference to the issue of environment and climate. The annual work plan includes communication of business moves on the subject.

#### Scenario analysis

A key component in determining the framework for the management of environmental and climate risks is the ability to identify, evaluate and manage risks and opportunities in the various economic sectors, including an individual analysis of key borrowers that will provide the Bank with insights regarding how the borrowers are likely to be affected by the materialization of the risks. The Bank prepared an initial qualitative analysis for mapping the main climate risk factors with a breakdown by economic sector. For more information on the subject, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2022.

Environmental risk is an "evolving" risk. Evolving risks are characterized by lack of quantitative data of adequate historical depth for their estimate and by high variance compared to other risks over time; this requires well-structured processes to adjust their management and measurement tools.

The Bank is monitoring regulatory, technologies and company-based developments, studying them and adjusting the risk management tools and methodologies on an ongoing basis.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information".

For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2022.

## Part 10 - Other Risks

### Regulatory Risk

Regulatory risk is the risk of legislative and regulatory changes affecting the income and expenses of the Group, its capital, areas of activity or the business environment in which it operates.

The Leumi Group operates in a complex and multidisciplinary regulatory environment. Material ongoing changes in diverse regulatory domains require adequate ongoing preparedness of the Bank's activities.

Recently, emphasis had been placed mainly on guidance in the following areas:

Directives regarding boosting competition in the financial sector, especially in the area of Open Banking, directives addressing the conduct and fees and commissions, risk management directives - especially ESG risk management, privacy protection and information security directives.

For further details, please see Laws and Regulations Governing the Banking System in the Report of the Board of Directors and Management as at December 31, 2022.

The abovementioned trends and changes affect, and are expected to continue to affect, the Israeli banking system in the coming years. The Bank monitors and identifies relevant regulatory provisions, and examines its preparedness for the following: changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; use of databases and information of the Bank's customers by non-banking entities; and providing customers with tailored value propositions. At the same time, regulation erodes income, leads to increased compliance costs and requires banks to constantly improve their levels of service and innovation.

### Compliance Risk

Compliance risk is the risk of a legal or regulatory sanction being imposed, or a material financial loss or a reputational damage incurred, by the banking corporation as a result of failing to comply with the provisions of the law or regulations.

Proper Conduct of Banking Business Directive No. 308, "Compliance and the Compliance Function in Banking Corporations", formally defines the compliance function's areas of responsibility at the Group level. The directive stipulates that a bank must assess the effectiveness of its compliance risk management, and find means to measure it, with the risk derived from the entire body of laws governing the Bank's activity.

According to the Bank's policy, compliance risk is managed at the Group level. In this context, various steps are taken to supervise and control foreign office and subsidiaries in order to monitor implementation of compliance aspects as a whole and apply the Group's compliance policy. To effectively manage compliance risk, Leumi has in place a compliance and enforcement function, headed by the Chief Compliance Officer. The Chief Compliance Officer is responsible, among other things, for meeting the legal requirements of the prohibition on money laundering and terror financing and implementation of the international sanction regimes in accordance with the Bank's policy.

As part of the Compliance Officer's responsibilities regarding the implementation of the international sanctions, regular reviews are carried out and the required adjustments are made; thus, for example, during the past year, due to a significant expansion of the international sanctions against Russia and Belarus, the enforcement program was revised in connection to reflect this issue.

The Chief Compliance Officer also serves as the securities law enforcement officer, the privacy protection officer, and the officer responsible for FATCA implementation, the CRS and the QI agreement.

The Compliance and Enforcement Department reports to the Chief Risk Officer.

#### A. [Prohibition on money laundering and prohibition on financing of terrorism](#)

Maintaining proper compliance culture across the entire organization requires an effective control and enforcement framework. To this end, strict work procedures and control and enforcement processes have been established for all workflows and their relevant compliance risks. The purpose of the control and



enforcement framework is, among other things, to identify existing and potential gaps and exposures in order to determine whether work processes and training programs should be revised.

The Compliance Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole as well as the implementation of the Group's compliance policy.

Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, hedge funds, financial service providers, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in an evolving financial technology environment characterized by professional complexity and a lack of practices incorporated into the control processes due to the novelty of the issues at hand.

#### B. Administrative enforcement

The Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was designed to streamline the enforcement of legislative provisions in the securities domain. The law allows to impose various sanctions on a corporation which has violated relevant provisions, including its officers and employees.

The Group's Chief Compliance Officer also serves as the Chief Compliance Enforcement Officer, responsible for the implementation of the internal enforcement program in the area of securities and investment management which was approved by the Bank's Board of Directors.

#### C. Foreign Account Tax Compliance Act (FATCA) - Common Reporting Standard (CRS) and the reported funds policy and Declared Money Policy (DMP)

On July 14, 2016, the Income Tax Ordinance Amendment Law (No. 227), 2016 was published on the implementation of the FATCA agreement between the State of Israel and the United States as well as agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information published by the OECD.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019, were published on February 6, 2019. Pursuant to the regulations, the Bank is required, to identify customers who are residents of foreign countries, and to report customers identified as residents of countries with which Israel has information exchange agreements to the Israel Tax Authority, which will forward the information to the competent authorities in the customers' countries of residence.

The Bank reports to the Israel Tax Authority according to the provisions of the said law.

The Bank implements a "reported funds" policy while ensuring that no funds managed by the Bank go undeclared to the relevant tax authorities. In this context, various measures were taken to locate and identify the relevant target audiences. If needed, customers are required to provide various statements and approvals.

On November 27, 2022 and on February 1, 2023, two financial sanctions were imposed on Pepper by the Banking Supervision Department. For additional information regarding the financial sanctions, please see Note 26.D to the financial statements as of December 31, 2022.

### Legal Risk

The legal risk is defined as exposure to damage resulting from claims against the Bank, provision of a defective legal opinion, preparation of defective agreements, non-provision of appropriate instructions following changes in legislation and rulings and fines and supervisory activity.

Legal risk arises from five main areas:

- Legislation risk - risk attributable to the Bank's activity which does not comply with a primary or secondary legal provision, a Bank of Israel directive or a directive issued by other competent authorities.

- Contractual risks - risks attributable to the Bank's activity with customers, suppliers and other parties with whom the Bank contracts, if the activity is not backed by an agreement that fully establishes the Bank's interests, or the agreement is not fully enforceable or includes illegal terms and conditions.
- Court ruling risk – risk arising from the Bank's activity if it does not comply with case law.
- Risk attributable to legal proceedings conducted against the Bank.
- Risk arising from changes in enforcement policy.

#### Legal risk policy and management framework

The Chief Legal Counsel, who is a member of the Bank's management and Head of the Legal Counsel Division, is responsible for leading legal risk management.

The Group implements a program for managing legal risk, which aims to identify, prevent, manage and mitigate legal risk. The program includes policy papers and an interface between the Legal Counsel Department and units of the Bank, as well as internal procedures applicable to the Legal Counsel Department, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The Bank's subsidiaries, domestic and foreign, implement a policy for legal risk management as part of dedicated policy papers and internal procedures for managing legal risks in with its activity and the Group's policy on the subject. According to the policy papers, the subsidiaries are required to seek adequate legal advice for certain issues. In addition, the subsidiaries send periodic and immediate reports to the Bank's Legal Risk Manager, as required by the policy papers. In 2022, the procedures for managing legal risk were refreshed and the legal risk stress scenario was challenged and revised.

In the context of the legal risk management program, the following points have been emphasized:

- Identifying and handling sources of material legal risk.
- Preventing and mitigating legal risk, inter alia by:
  - Preparing adequate agreements, guidelines and procedures.
  - Reviewing regulatory and legal provisions (including judgments), and their implications for the Bank's activity.
  - Drawing conclusions on various topics and implementing the conclusions drawn in legal documents used by the Bank, as well as providing opinions on these topics to the relevant units in the Bank.

The parties responsible for executing the legal risk management program include various officials and committees within the Legal Counsel Department, special purpose factors and committees - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank's activities.

In addition, the Legal Counsel Department identifies and handles, as needed, new regulation (primary legislation, secondary legislation, directives issued by regulators), as early as the proposed law or regulation formulation stage.

The activity of each of the abovementioned officials and committees is prescribed by internal work procedures of the Legal Counsel Department. The procedures stipulate, inter alia, the information interfaces between each of these parties and the legal risk team of the Department, the Department's management and the Legal Risk Manager.

#### General legal exposure

The Banks has a general legal exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services provided by the Bank and the consolidated companies to their customers. The complexity of these services embodies, inter alia, a potential for claims, interpretative and other, relating to a long list of commercial and regulatory terms and conditions. It is impossible to foresee all of the types of claims which may arise in this area and the exposure deriving from these and other claims in connection with the services provided by the Bank and the consolidated companies, inter alia, in motions to approve class-action lawsuits.

There is also legal exposure due to regulatory changes and guidance issued by the Banking Supervision Department, the Israel Securities Authority and other regulators to which the Bank is subjected.

Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted to changing reality on a regular basis in light of the changes as aforesaid. All these create an increased operating and legal exposure.

There is also legal exposure arising from complaints filed from time to time with the Banking Supervision Department against the Bank and the consolidated companies, which may, under certain circumstances, result in legal proceedings against the Bank. Currently, it is impossible to assess whether there is exposure in respect of such complaints and whether the Banking Supervision Department will issue an industry-wide decision about the complaints and/or whether class actions or other type of lawsuits will be brought as a result of such proceedings; it is therefore impossible to assess the potential exposure for the such complaints. Accordingly, no provision was included in respect of the said exposure.

## Reputational Risk

Reputational risk is the risk of compromising various stakeholders' trust (customers, shareholders, bondholders, etc.) in Bank Leumi, as a result of conduct, action, or omission by the Group, its officers, employees or other involved parties. Reputational risk refers to the perceptions of the shareholders, stakeholders, the public, influencers and the media, whether they are fact-based or otherwise. Reputational risk is dynamic and changes depending on various topics and populations.

The reputational risk management policy was approved by the Bank's management and Board of Directors with the view that trust is vital to business activity. The policy defines the organizational structure and areas of responsibility supporting the management of reputational risk.

## Strategic Risk

Strategic risk is the risk of significant harm to current and future financial resilience and a result of harmful business decisions, faulty implementation of strategic decisions or failure to respond to changes in the banking sector and operating environment.

The financial industry and banking sector are experiencing significant changes affecting strategic risk and requiring adjustment to the business model, including:

Entry of new players, such as BigTechs (Google, Amazon, Facebook, Apple), FinTechs, insurance companies, non-banking credit companies and digital banks, which often enjoy regulatory arbitrage compared to the regulation applicable to banks, as well as agile business systems.

Regulatory changes supporting encouragement of competition, such as the duty to reduce credit facilities, using the Central Credit Register, the Interbank Transition Law and Open Banking initiative. It should be noted that while the regulatory changes often restrict the banks' activity, in many cases they do not apply to competitors such as insurance companies, FinTechs and sizable tech companies, such as Apple and Google.

A three-year plan, the Bank's strategic risk is approved by management and the Board of Directors. The strategic plan is drawn following a comprehensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, with the aim of identifying and mapping threats and opportunities. In addition, an annual refresher process is undertaken, in which the key external trends are examined, as well as their potential impact on Leumi. The strategic risk is managed by the Bank's Board of Directors and management, with the assistance of the Strategy, Digital and Data Division.

## Model Risk

Models risk is the risk of a loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model.

The model risk management policy was approved by the Bank's management and Board of Directors with the view that the nature and quality of models are vital to the business activity. The policy relates to model risk management principles, corporate governance definition, officers and authorization hierarchies.

Under the policy, a multi-year risk-based work plan was developed to manage and mitigate model risks; the Bank continues to apply the risk mitigation work plan.

The Bank's strategy for transitioning to using digital tools and models-based processes increase the reliance on models in work processes. This trend increases the efficiency, transparency and objectivity of the processes, thereby mitigating

fair conduct, service, credit underwriting risks but increasing models risks. The work plan to manage and monitor models risks has been adjusted to these heightened risks.

In view of the increase in the interest and inflationary environment and the macroeconomic changes, during the year, the Bank tightened the model risk management processes, the ongoing monitoring processes were increased by the model owners, who validated, performed adjustments that were found to be required and performed a model risk assessment adjusted for the increased risk at the Bank level.

In addition, for the purpose of tightening and examining the control environment for the management of model risks, the Bank engaged international consultants to challenge the model risk management work processes and to assess the model risks in view of the update of the provisions of the new OCC and accepted practice.

## Conduct Risk

Conduct risk is the risk that the Bank's conduct will lead to an unwanted outcome for a customer due to inadequate service, inappropriate service or unfair conduct. The risk also includes inappropriate conduct affecting market integrity (the public's trust in the banking sector). The materialization of the risk may cause the Bank losses as a result of lawsuits (including class action lawsuits), sanctions or fines imposed (due to violating conduct-related provisions) and/or reputational damage.

The Bank adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to champion proactive, innovative banking for the customers and to grow expeditiously with the customers in focus. In addition, the proactive and sale processes are subject to procedures and controls that support proper conduct and which are assessed on a regular basis, with the aim of continuously upgrading them.

The increased consumer regulation trend continues, with emphasis conduct. In this context, the Bank continues to adhere to the principles of fairness.

The Bank continues to promote the provision of financial services using digital platforms and models; the assumption is that this measure will, among its other advantages, mitigates the conduct risk.

## Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including a low interest rate environment, global political power relations and their impact on international trade.

The main macroeconomic changes currently relate to the contractionary monetary process that is taking place in most countries around the world, in response to the acceleration of inflation. The acceleration of inflation occurred due to the severe disruption in supply chains during the first part of the coronavirus crisis alongside changes in the composition of the aggregate demand and supply. In response, during 2022, central banks began to take various steps to restore monetary restraint by raising the interest rate, quantitative tightening and other measures. The main risks relate to the extent to which the course of monetary tightening, which has not yet reached its peak, will moderate economic activity. Another risk relates to the possible need for additional interest rate rises, more than those currently expected by the markets due to continued inflation, putting another burden on economic activity.

The coronavirus crisis still represents a global macroeconomic risk, but to a lesser extent on the domestic economy, and therefore this is a factor with a possible impact on the Bank's business. A significant resurgence of morbidity, if such occurs, may harm business activity of sensitive industries such as tourism, aviation, leisure, entertainment, food services, etc., as well as significant indirect impacts on a wide range of industries in the fields of commerce, services and non-residential real estate. This crisis left many economies around the world with a significant increase in sovereign debt, a development which is liable to pose a future risk to the stability of financial markets. In addition, there are significant risks arising from climate change and various geopolitical risks, including the Ukrainian-Russian crisis, which increase the potential for volatile global economic processes.

Subsequent to the reporting period, public events began - legislative and social - regarding which there is considerable uncertainty as to the manner of their development and impact on the Israeli economy in the medium and long term, and as a result - on the bank's results. The said events may have an adverse effect on the Israeli economy and as a result, on the Bank's performance. For now, changes are evident in Israel's financial markets and in the pricing of Israeli financial assets in the global markets, including the weakening of the exchange rate of the shekel against the currency basket, the dollar and the euro, the increase in Credit Default Swaps (CDS) of the State of Israel, which are traded across the world, and very high volatility in leading indices in the Tel Aviv Stock Exchange.

The Bank is assessing its ability to withstand adverse developments in the macroeconomic environment using systemic stress scenarios. In this context, the Bank conducts uniform stress scenarios following a request by the Banking Supervision Department. In addition, ongoing monitoring and follow up of market developments are conducted in order to prepare in advance and adapt the activity, as needed.

For more information, please see the section entitled "Main Developments in the Israeli Economy" in the Report of the Board of Directors and Management as at December 31, 2022.

## Part 11 - Compensation

### Qualitative Disclosure in Table Format (REMA)

Below is the Bank's disclosure on compensation, pursuant to the disclosure requirements under Pillar 3 of the Basel Accord, as stipulated in the Banking Supervision Department' Reporting to the Public Directives.

Qualitative disclosure	
<b>a. Information about the functions supervising compensation</b>	
Name, composition and purview of the main function regulating compensation.	<p>The Board of Directors' Compensation Committee is the primary function supervising compensation in the Bank.</p> <p>The following are some of the committee's roles: it discusses, approves and provides recommendations to the Board of Directors regarding the Bank's compensation policy, officer employment terms and the underlying principles of other employees' terms of employment.</p>
Details of external consultants the Bank wishes to engage regarding compensation, the function requesting the service and in which aspects of the compensation processes.	<p>Cognum Financial Consulting Ltd. advises the committee on financial matters and Adv. Eyal Dotan of the Meitar Liquornik Geva Leshem Tal law firm provides legal support.</p>
Description of the scope of the Bank's compensation policy.	<p>The Bank's officer compensation policy is based on three policy papers: a compensation policy applicable to the Bank's officers; a compensation policy applicable to key employees (who are not officers); and a compensation policy for the Bank's other employees.</p> <p>The compensation policy applies to the entire group, and includes recommended guidelines and principles for the subsidiaries.</p> <p>A revised officer compensation policy was approved by the Bank's general meeting held in August 2022 and entered into force in 2023 (except for a section dealing with equity compensation that comes into force on the date of approval of the compensation policy by the General Meeting); it shall also apply to 2024 and 2025.</p> <p>The revised compensation policy for non-executive key employees and a revised compensation policy for all Bank employees (who are not key employees) were approved in 2023 by the compensation committee and the Bank's Board of Directors. The aforesaid compensation policy for key non-executive employees and the aforesaid compensation policy for all Bank employees will apply in 2023, 2024 and 2025. In the reporting year, the compensation policy papers that were in effect through the end of 2022 still applied.</p>
A description of the types of employees defined as officers and other key employees.	<p>The Bank's officer group comprises the Chairman of the Board and other members of the Board, the President and CEO, other members of management (including the Chief Internal Auditor), as well as the Compliance Officer and the Bank's Secretary, provided that he is not its Legal Counsel. The "other key employees" group (who are not officers) was determined in line with the definition of the term in Proper Conduct of Banking Business Directive No. 301A.</p>

b. Information on planning and structure of the compensation processes

Review of the main characteristics and objectives of the compensation policy.

The compensation policy is based, inter alia, on: (1) the provisions of the Companies Law regarding setting the compensation policy, (2) Proper Conduct of Banking Business Directive No. 301A regarding the compensation policy in a banking corporation, and (3) the Law of Officer Compensation in Financial Corporations (Special Permit and Non Tax-Deductible Expenses Due to Exceptional Compensation), 2016 (hereinafter: the "Compensation Limitation Law"), mutatis mutandis, and taking into account the type of executives and employees to which each of the Bank's compensation policies applies.

The policy includes, inter alia and mutatis mutandis, provisions regarding fixed compensation (including salaries and related benefits), variable compensation and the conditions for receiving it; equity compensation; terms of termination of employment; terms under which the Bank may demand a partial refund of bonuses granted; and various provisions intended to prevent taking risks that deviate from the Bank's risk appetite, such as provisions requiring, in certain cases - deferring the payment of part of the variable bonus, pursuant and subject to the directives of the Banking Supervision Department.

Review of changes made to the Bank's compensation policy throughout the reporting year, the reasons for the changes and their effect on the compensation.

On August 4, 2022, the Bank's general meeting approved the revised compensation policy for the Bank's officers. Generally, the Revised Compensation Policy shall apply as from 2023, and does not apply in the reporting year (2022), in which the Previous Officer Compensation Policy applies. Following are the main changes in the Revised Compensation Policy compared with the Previous Compensation Policy:

1. An option was added, according to which, subject to approval by the Bank's competent organs and subject to the provisions of any law, the Bank's officers (including directors) may be entitled to capital compensation in the form of options, shares or share-based instruments. This directive is applicable from the date of approval by the general meeting (August 4, 2022). For information about the allocation of options exercisable into ordinary Bank shares to bank officers (who are not directors or the CEO and president) and to other Bank employees in accordance with the compensation policy as stated above, see the outline for the offering of unlisted options to officers and employees published by the Bank as part of an immediate report of August 16, 2022 (2022-01-103780).
2. The Bank adopted a mechanism enabling an increase in the compensation to which the Chairman of the Board and the President and CEO will be entitled upon an increase in the lowest compensation at the Bank, as stated in the Compensation Limitation Law.
3. The annual measurable bonus (that will not exceed 5 monthly salaries for each officer) will be composed of a number of monthly salaries that will be set by the Compensation Committee and Board of Directors at the beginning of each year, for meeting a list of targets and other targets, if the Compensation Committee and Board of Directors decided to set such targets to officers other than the CEO and President (compared with a closed list of targets in the Previous Compensation Policy).
4. At the beginning of each award year, the Compensation Committee and Board of Directors will set a range for that year's targets for each of the targets comprising the measurable annual bonus, and the number of

salaries that the above-mentioned officers may be entitled to in respect of each target (compared with the Previous Compensation Policy in which fixed ranges for targets and salaries were set in advance for the entire policy period in respect of each target).

5. Revision of the framework resolution whereby the Bank is authorized to purchase an insurance policy in respect of professional liability of directors and other Bank and Group officers from time to time, without seeking further approval by the general meeting.
6. Compensation to the Chairman of the Board of Directors - further to the revision of Proper Conduct of Banking Business Directive No. 301A, the provisions listed in the Compensation Policy regarding the terms of service of the Chairman of the Board of Directors were revised so that they will be in line with the revised directive.

These changes stem, among other things, from the experience acquired by the Bank following the adoption of the Previous Compensation Policy and its implementation and effectiveness, and the wish to adapt the existing compensation mechanisms to the Bank's size, the nature of its business and the goals and targets the Bank's compensation policy is designed to fulfill, while giving higher levels of flexibility that allow the Bank to adjust the variable compensation to its officers more accurately every year, in accordance with the changes that take place in the market on a regular basis. This also allows the Bank - under the revised Compensation Policy to officers - to award officers equity compensation in the form of options, such that the compensation is linked to the Bank's share price and increases accordingly Bank's officers identification with the Bank and its targets in the mid and long-term.

During the course of 2022, the Compensation Committee and Board of Directors approved a revision to the compensation policy applicable to key employees who are not officers, which allows the Bank to award key employees an equity compensation in the form of options, shares or share-based instruments (similarly to a revision made to officers' compensation policy).

A revised compensation policy for key employees at the Bank who are not officers was approved by the Bank's Compensation Committee and the Board of Directors in January 2023; the revised policy will be in effect until the end of 2025. The revision aims to change this compensation policy, with the required changes, such that it will be in line with the underlying principles of the Bank's compensation policy for its officers that was set in August 2022.

In January 2023, the Bank's Compensation Policy and Board of Directors also approved a revision to the compensation policy that applies to all Bank employees (who are not key employees or officers); the revised policy will also be in effect until the end of 2025. The revised compensation policy for all Bank employees does not include material changes compared with the previous policy.

Discussion of the manner in which the Bank ensures that employees who handle risks and compliance are remunerated

The variable annual compensation structure under the compensation policy for officers and in the compensation policy for other key Bank employees (hereinafter, jointly: the "Compensation Policy") ensures that employees who handle risks and compliance are rewarded independently of the business



independently of the businesses they oversee.	functions they oversee. Thus, a significant part of the total variable annual compensation is based on personal performance and qualitative criteria in accordance with the relevant key employee's purview, independently of the business results of the Bank and/or business units overseen by employees engaged in risk management and compliance. In addition, pursuant to the Compensation Limitation Law, the maximum annual variable bonus under the Compensation Policy was limited such that it no longer requires differentiation between employees engaged in risk management and compliance and other employees, in terms of the ratio between the variable compensation and the fixed one.
c. Description of the manner in which existing and future risks are taken into account in the compensation process	
Overview of the main risks, their measurement and the means by which the metrics affect the compensation.	<p>The compensation policy is aimed at preventing the Bank from undertaking short-term risks and prescribes mechanisms to ensure that the various risks related to its activity are taken into account in determining the variable compensation amount of the key employees. Thus, for example, the measuring of performance in respect of the measurable variable bonus components, which are based on the Bank's return on equity and on the yield of the Bank's share, is calculated according to the Bank's weighted return on equity over a period of three years, and according to the weighted average of the share's yield over three years.</p> <p>Furthermore, in accordance with the compensation policy, the Compensation Committee and Board of Directors should take into account various parameters when determining the qualitative personal bonus, such as failure to comply with the laws and regulations; failure to comply with the Bank's policy and procedures; no material deviation from the policies set by the Board of Directors, including failure to adhere to the Bank's risk management policy and risk appetite; audit reports covering the key employee's area of responsibility, etc. In addition, the Board of Directors is authorized to reduce, in certain cases, the measurable variable bonus for officers; and the President and CEO is authorized to reduce, in certain cases, the variable bonus to the key employees who not officers. The Compensation Policy and the Revised Compensation Policy establishes mechanisms aimed at creating incentives to ensure that the variable bonus amount is affected by an actual materialization of the risks, such as a mechanism that requires, in certain cases, deferral of part of the variable bonus over several years, provisions enabling partial or full clawback of all variable bonuses under certain conditions, etc.</p> <p>In addition to the above, following the enactment of the Compensation Limitation Law, the variable bonus is lower than was customary in the past before the Compensation Limitation Law came into effect. In and of itself, this reduction could reduce the incentive to take risks that deviate from the Bank's risk appetite.</p>
d. Description of the manner in which the Bank links performance to reward levels during the performance measurement period	
Review of the Bank's main performance metrics - both for the upper level of the business lines and for personal performance.	<p>The main performance measures in the Former Compensation Policy (weighted and calculated over three years) are as follows:</p> <ul style="list-style-type: none"> <li>The Bank's weighted return on equity; the weighted difference between the annual return on the Bank's share and the annual return</li> </ul>

	<p>on the Tel Aviv Bank index (net of the Bank's share); and the Bank's weighed efficiency ratio.</p> <ul style="list-style-type: none"> <li>• Measurement of personal qualitative criteria in accordance with the key employee's areas of responsibility, such as: the contribution for the Bank's strategic planning and implementing and promoting strategic plans and objectives; increasing efficiency; proactively promoting and leading projects; failure to comply with laws and regulations and with the Bank's procedures; failure to meet material provisions prescribed by the Board of Directors' policy papers; failure to meet the Bank's risk management policy and risk appetite; audit reports, etc.</li> </ul>
Discussion of the manner in which personal compensation is linked to the results of the Bank as a whole and to personal performance.	See above.
Discussion of the main indicators used by the Bank to adjust the compensation in the event that the performance metrics are weak including the criteria for determining when the Bank's performance indicators are weak.	<p>Under the compensation policy, all of the Bank's employees (including the Bank's officers) are entitled to the measurable annual bonus if the Bank meets the capital adequacy ratios required by the directives of the Banking Supervision Department during the bonus year. In addition, part of the annual measurable bonus is conditional upon the Bank's achieving a minimum weighted return on equity during the bonus year, and another part is conditional upon reaching a minimum share return difference between the annual weighted return on the Bank's share and the annual return on the TA Banks Index, net of the Bank's share; another part is conditional upon on the achievement of a minimum weighted efficiency ratio of the Bank, all calculated over three years, as aforesaid, and as determined by the Compensation Committee and Board of Directors at the beginning of each year.</p> <p>According to the compensation policy and Proper Conduct of Banking Business Directives, if the variable compensation is higher than 40% of the annual fixed bonus, a uniform mechanism of deferral whereby half (50%) of the amount of the variable bonus is paid in cash, and the other half is paid in three equal tranches: at the end of the year, after two years and after three years. The variable compensation may be made, in whole or in part, by way of stocks and/or stock-based instruments. A deferred bonus will be granted only if, at the designated payment date, the Bank meets its required capital adequacy targets. If not, the payment will be deferred until the said ratio is met.</p> <p>In addition, the Bank's Board of Directors has the discretion to reduce the annual measurable bonus amount, in whole or in part, for some of, or all, of the officers, after obtaining the approval of the Compensation Committee. For key employees who are not officers - the President and CEO may decide, at her discretion, to reduce the amount of the variable annual bonus (in whole or in part).</p>
e. <a href="#">Description of the ways in which the Bank links the compensation to longer-term performance</a>	
Discussion of the Bank's policy regarding the deferral and vesting of variable compensation, and whether the deferred	See above.

part of the variable bonus varies among employees or groups of employees; description of the factors determining the said part and their relative weight.	
Discussion of the Bank's policy and criteria for adjusting a deferred compensation before and after vesting by means of a clawback arrangement	<p>In addition to the aforesaid, according to the compensation policy, a key employee must return to the Bank any amounts paid to him in accordance with the compensation policy, if paid on the basis of data found to be erroneous and restated in the Bank's financial statements (in the manner determined by the Compensation Committee and Board of Directors).</p> <p>In addition, a key employee may be required, in certain cases, to return variable compensation paid to him. Variable compensation is recoverable for a maximum period of 5 years from the date on which it was paid (and for officers - for a maximum of 7 years, in certain cases).</p>
<b>f. Description of the different forms of variable compensation used by the Bank and considerations for using them</b>	
Discussion of the ratios considered adequate between the maximum variable compensation and the fixed compensation set by the Bank pursuant to Section 13 to Directive 301A.	<p>Pursuant to Directive 301A, the variable compensation in a given year for each of the Bank's key employee shall not exceed 100% of the fixed compensation of that key employee during that year.</p> <p>Pursuant to the Compensation Policy, the annual variable salary for officers is limited to a maximum of 9 monthly salaries. In addition, according to the compensation policy for key employees (who are not officers), the variable annual bonus is limited to a maximum of 7 monthly salaries for key employees in staff positions and up to 9 salaries for key employees in field positions (P&amp;L), excluding special bonuses.</p> <p>According to the compensation policy for all other Bank employees, the variable compensation in a given year for each of the Bank's key employees shall not exceed 85% of the fixed compensation of that employee during that year.</p>
In exceptional cases, where the Bank has determined that the maximum variable compensation may exceed 100% of the fixed compensation - details of the ratios set, the reasons thereto, the affected employees, their position and the effect on the Bank.	As aforesaid, the maximum variable compensation may not exceed 100% of the fixed compensation.
Review of the various forms of variable compensation (e.g., cash, shares, stock-based instruments, etc.).	According to the compensation policy, variable compensation, including the deferred variable bonus component, can be paid by way of shares and/or share-based instruments (such as options).
Discussion of the use of various forms of variable compensation, and, whether the mix of the various forms of compensation varies among employees or groups of employees, a description of the factors that determine the mix and their relative weight.	The provision in the compensation policy, according to which variable annual bonus - including the deferred variable compensation component - can be paid by way of shares and/or share-based instruments (such as options) applies to officers and key employees. The parties responsible for determining the manner of paying the variable compensation are the Compensation Committee and the Board of Directors (and the General Meeting if its approval is required under the provisions of any law).

## Compensation Awarded during the Financial Year (REM1)

			A	B	A	B
			For the year ended December 31			
			2022		2021	
			Senior officers	Other key employees	Senior officers	Other key employees
Compensation amount			In NIS millions			
1	Fixed compensation	No. of employees	15	116	22	111
2		Total fixed compensation	28	93	32	87
3		Of which: Cash-based	28	93	32	87
4		Of which: Deferred	-	-	-	-
5		Of which: shares or other stock-based instruments	-	-	-	-
6		Of which: Deferred	-	-	-	-
7		Of which: other forms	-	-	-	-
8		Of which: Deferred	-	-	-	-
9	Variable compensation	No. of employees	13	110	17	109
10		Total variable compensation	15	49	12	34
11		Of which: Cash-based	6	27	9	28
12		Of which: Deferred	4	13	3	6
13		Of which: shares or other stock-based instruments <sup>(a)</sup>	5	9	-	-
14		Of which: Deferred	5	9	-	-
15		Of which: other forms	-	-	-	-
16		Of which: Deferred	-	-	-	-
17		Total compensation	43	142	44	121

(a) The disclosure in the table regarding this matter reflects an award of share-based instruments in the reporting year (2022) to officers and other key Bank employees, and therefore does not reflect the way those instruments were recorded for accounting purposes in the Bank's financial statements.

## Special Payments (REM2)

For the year ended December 31, 2022						
Guaranteed bonuses		Sign-on bonuses		Severance pay		
No. of employees	Total in NIS millions	No. of employees	Total in NIS millions	No. of employees	Total in NIS millions	
Senior officers	-	-	1	1	-	-
Other key employees	-	-	6	1	1	1

For the year ended December 31, 2021						
Guaranteed bonuses		Sign-on bonuses		Severance pay		
No. of employees	Total in NIS millions	No. of employees	Total in NIS millions	No. of employees	Total in NIS millions	
Senior officers	-	-	4	2	1	1
Other key employees	-	-	4	1	2	3

## Deferred Compensation (REM3)

	A	E
	<b>For the year ended December 31, 2022</b>	
	Total payable compensation amount of the outstanding compensation	Total amount of the deferred compensation paid during the reporting year
Deferred Compensation (REM3)	In NIS millions	
Senior officer		
Cash	7	-
Shares	-	-
Cash-based instruments	-	-
Other <sup>(b)</sup>	5	-
Other key employees		
Cash	19	-
Shares	-	-
Cash-based instruments	-	-
Other <sup>(b)</sup>	9	-
<b>Total</b>	<b>40</b>	<b>-</b>

	A	E
	<b>For the year ended December 31, 2021</b>	
	Total payable compensation amount of the outstanding compensation	Total amount of the deferred compensation paid during the reporting year
Deferred Compensation (REM3)	In NIS millions	
Senior officer		
Cash	3	_(a)
Shares	-	-
Cash-based instruments	-	-
Other	-	-
Other key employees		
Cash	6	_(a)
Shares	-	-
Cash-based instruments	-	-
Other	-	-
<b>Total</b>	<b>9</b>	<b>_(a)</b>

(a) Amount less than NIS 500 thousand.

(b) Other - in respect of options.

The data included in the tables are presented on an accounting basis (excluding options).

## Additional Information on Compensation

For more information regarding the compensation policy, please see Note 23 to the Financial Statements as at December 31, 2022.

For more information regarding officer compensation, please see the section entitled "Salaries of Senior Officers" in the Bank's Corporate Governance Report as at December 31, 2022.

# Addendum A - Reconciliation of Financial Statements and Regulatory Exposures

## Differences between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories (LI1)

	A+B <sup>(a)</sup>	C	D	E	F	G
<b>December 31, 2022</b>						
Book value of items that are:						
	Book values as reported in the issued financial statements	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework <sup>(b)</sup>	Not subject to capital requirements nor to deductions from the capital basis
In NIS millions						
<b>Assets</b>						
Cash and deposits with banks	186,569	181,969	4,600	-	-	-
Securities <sup>(c)</sup>	82,950	75,012	3,952	3,174	2,260	-
Securities borrowed or purchased under reverse repurchase agreements	3,034	-	3,034	-	-	-
Loans to the public	389,768	384,279	5,489	-	-	-
Loan loss provision	(4,986)	(4,986)	-	-	-	-
Loans to the public, net	384,782	379,293	5,489	-	-	-
Loans to governments	1,109	1,109	-	-	-	-
Investments in investees	4,947	3,742	-	-	-	1,205
Buildings and equipment	2,735	2,735	-	-	-	-
Assets for derivatives <sup>(d)</sup>	26,638	-	26,638	-	17,186	-
Other assets	6,402	6,402	-	-	-	-
Held-for-sale assets	-	-	-	-	-	-
<b>Total assets</b>	<b>699,166</b>	<b>650,262</b>	<b>43,713</b>	<b>3,174</b>	<b>19,446</b>	<b>1,205</b>
<b>Liabilities</b>						
Deposits by the public	557,084	-	-	-	-	557,084
Deposits by banks	22,306	-	-	-	-	22,306
Deposits by the Israeli government	247	-	-	-	-	247
Securities loaned or sold under agreements to repurchase	3,952	-	-	-	-	3,952
Bonds, capital notes and subordinated bonds	27,805	-	-	-	-	27,805
Liabilities for derivatives <sup>(d)</sup>	23,311	-	23,311	-	23,226	-
Other liabilities	15,018	-	-	-	-	15,018
Held for sale liabilities	-	-	-	-	-	-
<b>Total liabilities</b>	<b>649,723</b>	<b>-</b>	<b>23,311</b>	<b>-</b>	<b>23,226</b>	<b>626,412</b>

- (a) The Bank's accounting consolidation scope and regulatory consolidation scope are one and the same.
- (b) The amounts do not include balances used in the calculation of foreign exchange risk, including structural positions in foreign currency, for these balances, please see Note 31 to the Financial Statements as at December 31, 2022.
- (c) Securities deposited as collateral for activity in derivative instruments with a central clearing agency whose clearinghouse members are subject to both a credit risk framework (for the securities issuer's risk) and a counterparty credit risk framework (for the counterparty credit risk where the securities were deposited as collateral).
- (d) Derivative instruments in the trading book subject to both a market risk framework and a counterparty credit risk framework.

	A+B <sup>(a)</sup>	C	D	E	F	G
	December 31, 2021					
	Book value of items that are:					
	Book values as reported in the issued financial statements	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework <sup>(b)</sup>	Not subject to capital requirements nor to deductions from the capital basis
	In NIS millions					
<b>Assets</b>						
Cash and deposits with banks	197,402	196,852	550	-	-	-
Securities <sup>(c)</sup>	86,927	80,741	2,282	2,213	3,122	-
Securities borrowed or purchased under reverse repurchase agreements	2,447	-	2,447	-	-	-
Loans to the public	347,391	341,599	5,792	-	-	-
Loan loss provision	(4,512)	(4,512)	-	-	-	-
Loans to the public, net	342,879	337,087	5,792	-	-	-
Loans to governments	940	940	-	-	-	-
Investments in associates	1,113	935	-	-	-	178
Buildings and equipment	2,720	2,720	-	-	-	-
Intangible assets and goodwill	14	-	-	-	-	14
Assets for derivatives <sup>(d)</sup>	14,027	-	14,027	-	9,211	-
Other assets	7,985	7,985	-	-	-	-
Total assets	656,454	627,260	25,098	2,213	12,333	192
<b>Liabilities</b>						
Deposits by the public	537,269	-	-	-	-	537,269
Deposits by banks	25,370	-	-	-	-	25,370
Deposits by the Israeli government	300	-	-	-	-	300
Securities loaned or sold under agreements to repurchase	2,282	-	-	-	-	2,282
Bonds, capital notes and subordinated bonds	15,428	-	-	-	-	15,428
Liabilities for derivatives <sup>(d)</sup>	15,551	-	15,551	-	15,289	-
Other liabilities	18,202	-	-	-	-	18,202
Total liabilities	614,402	-	15,551	-	15,289	598,851

(a) The Bank's accounting consolidation scope and regulatory consolidation scope are one and the same.

(b) The amounts do not include balances used in the calculation of foreign exchange risk, including structural positions in foreign currency, for these balances, please see Note 31 to the Financial Statements as at December 31, 2022.

(c) Securities deposited as collateral for activity in derivative instruments with a central clearing agency whose clearinghouse members are subject to both a credit risk framework (for the securities issuer's risk) and a counterparty credit risk framework (for the counterparty credit risk where the securities were deposited as collateral).

(d) Derivative instruments in the trading book subject to both a market risk framework and a counterparty credit risk framework.



## Reconciliation of Regulatory Capital to Balance Sheet (CC2)

	December 31		References to components of regulatory capital
	2022	2021	
	In NIS millions		
<b>Assets</b>			
Cash and deposits with banks	186,569	197,402	-
Securities <sup>1</sup>	82,950	86,927	-
<sup>1</sup> Of which: investments in the capital of financial corporations that do not exceed 10% of the financial corporation's equity capital	917	688	14
<sup>1</sup> Of which: other securities	82,033	86,239	-
Loans to the public	389,768	347,391	-
Loan loss provision <sup>1</sup>	(4,986)	(4,512)	-
<sup>1</sup> Of which: collective loan loss provision included in Tier 2 <sup>2</sup>	(5,167)	(3,995)	12
<sup>1</sup> Of which: loan loss provision not included in regulatory capital	181	(517)	-
Loans to the public, net	384,782	342,879	-
Loans to governments	1,109	940	-
Investments in associates <sup>1</sup>	4,947	1,113	-
<sup>1</sup> Of which: investments in the capital of financial corporations exceeding 10% of the financial corporation's equity capital	2,499	133	15
<sup>1</sup> Of which: goodwill	1,205	164	6
Buildings and equipment	2,735	2,720	-
Other assets <sup>1</sup>	6,402	7,985	-
<sup>1</sup> Of which: deferred tax assets <sup>2</sup>	5,199	5,857	-
<sup>2</sup> Of which: deferred tax assets excluding those attributed to timing differences	-	-	8
<sup>2</sup> Of which: deferred tax assets attributed to timing differences, whose total does not exceed 10% of Common Equity Tier 1 capital	384	1,686	10
<sup>2</sup> Of which: deferred tax assets attributed to timing differences, whose total does not exceed 10% of Common Equity Tier 1 capital	4,825	4,171	16
<sup>2</sup> Of which: other deferred tax assets pursuant to the transitional provisions, efficiency plan and average yield curve	(10)	-	13
<sup>1</sup> Of which: additional other assets	1,203	2,128	-
Intangible assets and goodwill <sup>1</sup>	-	14	-
<sup>1</sup> Of which: goodwill	-	14	6
Securities borrowed or purchased under reverse repurchase agreements	3,034	2,447	-
Assets in respect of derivatives	26,638	14,027	-
<b>Total assets</b>	<b>699,166</b>	<b>656,454</b>	<b>-</b>

	December 31		References to components of regulatory capital
	2022	2021	
	In NIS millions		
<b>Liabilities and capital</b>			
Deposits by the public	557,084	537,269	-
Deposits by banks	22,306	25,370	-
Deposits by governments	247	300	-
Bonds and subordinated notes <sup>1</sup>	27,805	15,428	-
<sup>1</sup> Of which subordinated notes not recognized as regulatory capital	20,258	9,356	-
<sup>1</sup> Of which subordinated notes recognized as regulatory capital <sup>2</sup>	7,547	6,072	-
<sup>2</sup> Of which: eligible as regulatory capital components	7,547	5,848	11A
<sup>2</sup> Of which: eligible as regulatory capital components and subject to transitional provisions	-	224	11
Other liabilities <sup>1</sup>	15,018	18,202	-
<sup>1</sup> Of which: collective loan loss provision included in Tier 2 <sup>2</sup>	581	420	12
Securities borrowed or purchased under reverse repurchase agreements	3,952	2,282	-
Liabilities in respect of derivative instruments <sup>1</sup>	23,311	15,551	-
<sup>1</sup> Of which: in respect of own credit risk	21	23	9
Total liabilities	649,723	614,402	-
Non-controlling interests <sup>1</sup>	5	442	-
<sup>1</sup> Of which: non-controlling interests attributable to Common Equity Tier 1 capital	-	300	4
<sup>1</sup> Of which: non-controlling interests attributable to Tier 2 Capital <sup>(b)</sup>	-	81	5
Capital attributable to the banking corporations' shareholders <sup>1</sup>	49,438	41,610	-
<sup>1</sup> Of which: ordinary share capital	7,132	7,041	1
<sup>1</sup> Of which: premium for ordinary shares	2,829	184	1
<sup>1</sup> Of which: retained earnings	42,774	37,209	2
<sup>1</sup> Of which: unrealized gains (losses) from adjustment of available-for- sale securities at fair value	(1,942)	880	3
<sup>1</sup> Of which: net losses from adjustments from translation of financial statements	(12)	(273)	3
<sup>1</sup> Of which: other reserves	54	43	3
<sup>1</sup> Of which: gains (losses) from adjustments in respect of employee benefits included in regulatory capital	(1,397)	(3,474)	3
Total shareholders' equity	49,443	42,052	-
Total liabilities and capital	699,166	656,454	-

## Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements (LI2)

		A	B	C	D	E
		December 31, 2022				
		Items subject to:				
					Counterpart	
		Total	Credit risk	Securitization	y credit risk	Market risk
			framework	framework	framework	framework
		In NIS millions				
1	Total assets in accordance with the regulatory consolidation basis (according to the LI1 disclosure format)	697,961	650,262	3,174	43,713	19,446
2	Total liabilities in accordance with the consolidation basis (according to the LI1 disclosure format)	23,311	-	-	23,311	23,226
3	Total amount according to the regulatory scope of consolidation, net	674,650	650,262	3,174	20,402	(3,780)
4	Off balance sheet amounts <sup>(d)</sup>	187,736	63,053	-	15,789	-
5	Differences arising from differences in offsetting rules, except those already included in line 2 <sup>(a)</sup>	1,988	-	-	1,988	-
6	Differences arising from provisions <sup>(b)</sup>	5,167	5,167	-	-	-
7	Other adjustments <sup>(c)</sup>	(11,989)	436	-	-	(12,425)
8	Exposure amounts taken into account for regulatory purposes	857,552	718,918 <sup>(e)</sup>	3,174	38,179	(16,205)

		A	B	C	D	E
		December 31, 2021				
		Items subject to:				
					Counterpart	
		Total	Credit risk	Securitization	y credit risk	Market risk
			framework	framework	framework	framework
		In NIS millions				
1	Total assets in accordance with the regulatory consolidation basis (according to the LI1 disclosure format)	656,262	627,260	2,213	25,098	12,333
2	Total liabilities in accordance with the consolidation basis (according to the LI1 disclosure format)	15,551	-	-	15,551	15,289
3	Total amount according to the regulatory scope of consolidation, net	640,711	627,260	2,213	9,547	(2,956)
4	Off balance sheet amounts <sup>(d)</sup>	165,032	52,789	-	16,204	-
5	Differences arising from differences in offsetting rules, except those already included in line 2 <sup>(a)</sup>	4,825	-	-	4,825	-
6	Differences arising from provisions <sup>(b)</sup>	3,995	3,995	-	-	-
7	Other adjustments <sup>(c)</sup>	(13,032)	217	-	-	(13,249)
8	Exposure amounts taken into account for regulatory purposes	801,531	684,261 <sup>(e)</sup>	2,213	30,576	(16,205)

Explanations of Differences between Accounting and Regulatory Exposures Amounts (LIA):

- For regulatory purposes, the Bank employs a netting set for derivative transactions, pursuant to Appendix C to Proper Conduct of Banking Business Directive No. 203 when there are netting agreements in effect. When presenting the total derivatives in the balance sheet, no netting is carried out.
- Pursuant to Proper Conduct of Banking Business Directive No. 203, the collective provision included in Tier 2 capital is not deducted from the exposures for calculating credit risk.
- Netting positions in the trading book and applying coefficients in accordance with the duration method in Proper Conduct of Banking Business Directive No. 208, as well as adjustments for deferred taxes and efficiency plan.
- Addition of off-balance sheet items that constitute credit risk (business lines and guarantees), including components of potential future exposure to derivatives volatility.
- The difference between the credit exposure amounts is primarily due to the 250% weighted amounts included in LI2 and not included in CR4.

## Addendum B - Securitization

### Securitization Exposures (SECA)

The Bank's securitization exposures, in accordance with the capital adequacy provisions, arise from an investment in the Bank's own (nostro) portfolio.

At this time, the Bank is not involved in asset securitization activities, either as originator or as a direct sponsor for the securitization entities.

Asset-backed securities are characterized by wide diversification of borrowers. For some instruments, there are several risk layers, which allow the Bank to be flexible when adapting an investment to its risk appetite.

Most of the Bank's investments in securitized products are a fully backed or backed by implication by the US government. In 2022, the Bank did not invest in synthetic or re-securitized products.

As a rule, investment in securitized products is mainly managed through the banking book.

Risk management of securitized products is carried out with continuous monitoring of the development of risk indicators and testing compliance with restrictions and stress scenarios. Monitoring is carried out by dedicated and independent risk management and control units. In addition, dedicated periodic discussions are held focusing on the overall risk picture of the securitized products with the participation of the relevant parties from both the first line of defense and the second line of defense.

For more information, please see Note 12 to the financial statements as at December 31, 2022.

## Description of Securitization Exposures

### Securitization Exposures in the banking book<sup>(a)</sup> (SEC1)

	A	B	C	E	F	G	I	J	K
<b>December 31, 2022</b>									
	The banking corporation serves as a developer			The banking corporation serves as a lender			Banking corporation is acting as investor		
	Tradi- tional	Synthe- tic	Subtotal	Tradi- tional	Synthe- tic	Subtotal	Tradi- tional	Synthe- tic	Subtotal
In NIS millions									
1 Retail (total), of which:	-	-	-	-	-	-	-	7,335	- 7,335
2 Housing mortgage	-	-	-	-	-	-	-	7,098	- 7,098
3 Credit cards	-	-	-	-	-	-	-	-	-
4 Other retail exposures	-	-	-	-	-	-	-	237	- 237
6 Wholesale (total), of which:	-	-	-	-	-	-	-	3,632	- 3,632
7 Loans to corporations	-	-	-	-	-	-	-	3,632	- 3,632
8 Commercial mortgage	-	-	-	-	-	-	-	-	-
11 Re-securitization	-	-	-	-	-	-	-	-	-

	A	B	C	E	F	G	I	J	K
<b>December 31, 2021</b>									
	The banking corporation serves as a developer			The banking corporation serves as a lender			Banking corporation is acting as investor		
	Tradi- tional	Synthe- tic	Subtotal	Tradi- tional	Synthe- tic	Subtotal	Tradi- tional	Synthe- tic	Subtotal
In NIS millions									
1 Retail (total), of which:	-	-	-	-	-	-	-	7,082	- 7,082
2 Housing mortgage	-	-	-	-	-	-	-	6,980	- 6,980
3 Credit cards	-	-	-	-	-	-	-	-	-
4 Other retail exposures	-	-	-	-	-	-	-	102	- 102
6 Wholesale (total), of which:	-	-	-	-	-	-	-	2,408	- 2,408
7 Loans to corporations	-	-	-	-	-	-	-	1,999	- 1,999
8 Commercial mortgage	-	-	-	-	-	-	-	409	- 409
11 Re-securitization	-	-	-	-	-	-	-	-	-

(a) Disclosure balances reflect credit exposure (EAD) after other than temporary provisions for loan losses or impairments, before the effect of credit risk mitigators.

## Securitization Exposures in the Trading Book (SEC2)

	A	B	C	E	F	G	I	J	K
	<b>December 31, 2022</b>								
	The banking corporation serves as a developer			The banking corporation serves as a lender			Banking corporation is acting as investor		
	Traditional	Synthetic	Subtotal	Traditional	Synthetic	Subtotal	Traditional	Synthetic	Subtotal
	In NIS millions								
1	Retail (total), of which:	-	-	-	-	-	-	33	- 33
2	Housing mortgage	-	-	-	-	-	-	25	- 25
3	Credit cards	-	-	-	-	-	-	-	- -
4	Other retail exposures	-	-	-	-	-	-	8	- 8
6	Wholesale (total), of which:	-	-	-	-	-	-	-	- -
7	Loans to corporations	-	-	-	-	-	-	-	- -

	A	B	C	E	F	G	I	J	K
	<b>December 31, 2021</b>								
	The banking corporation serves as a developer			The banking corporation serves as a lender			Banking corporation is acting as investor		
	Traditional	Synthetic	Subtotal	Traditional	Synthetic	Subtotal	Traditional	Synthetic	Subtotal
	In NIS millions								
1	Retail (total), of which:	-	-	-	-	-	-	42	- 42
2	Housing mortgage	-	-	-	-	-	-	26	- 26
3	Credit cards	-	-	-	-	-	-	-	- -
4	Other retail exposures	-	-	-	-	-	-	16	- 16
6	Wholesale (total), of which:	-	-	-	-	-	-	-	- -
7	Loans to corporations	-	-	-	-	-	-	-	- -

## Calculation of Capital Requirements

### Securitization Exposures in the Banking Book and Associated Regulatory Capital Requirements – Bank Acting as Originator or as Sponsor (SEC3)

As at December 31, 2022 and December 31, 2021, the Bank is not involved in asset securitization activities, either as originator or sponsor for other entities.

### Securitization Exposures in the Banking Book and Associated Capital Requirements – Bank Acting as Investor<sup>(a)</sup> (SEC4)

		A	B	C	D	E	H	I	L	M	P	Q
		December 31, 2022										
		Exposure values by RW rate <sup>(a)</sup>					Exposure values according to the regulatory approach	RWA according to the regulatory approach		Capital charge after the implementation of the ceiling		
		Up to 20%	20-50%	50-100%	100-1250%	1250 %	SA/SSF A	1250 %	SA/SSF A	1250 %	SA/SSF A	1250 %
		In NIS millions										
1	Total exposures	2,892	218	64	-	-	3,174	-	751	-	94	-
2	Traditional securitization <sup>1</sup>	2,892	218	64	-	-	3,174	-	751	-	94	-
3	<sup>1</sup> Of which: securitization <sup>2</sup>	2,892	218	64	-	-	3,174	-	751	-	94	-
4	<sup>2</sup> Of which: retail basis	394	85	15	-	-	494	-	136	-	17	-
5	<sup>2</sup> Of which: wholesale	2,498	133	49	-	-	2,680	-	615	-	77	-
6	<sup>1</sup> Of which: re-securitization <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-
7	<sup>2</sup> Of which: senior	-	-	-	-	-	-	-	-	-	-	-

		A	B	C	D	E	H	I	L	M	P	Q
		December 31, 2021										
		Exposure values by RW rate <sup>(a)</sup>					Exposure values according to the regulatory approach	RWA according to the regulatory approach		Capital charge after the implementation of the ceiling		
		Up to 20%	20-50%	50-100%	100-1250%	1250 %	SA/SSF A	1250 %	SA/SSF A	1250 %	SA/SSF A	1250 %
		In NIS millions										
1	Total exposures	2,024	178	11	-	-	2,213	-	505	-	63	-
2	Traditional securitization <sup>1</sup>	2,024	178	11	-	-	2,213	-	505	-	63	-
3	<sup>1</sup> Of which: securitization <sup>2</sup>	2,024	178	11	-	-	2,213	-	505	-	63	-
4	<sup>2</sup> Of which: retail basis	343	49	11	-	-	403	-	104	-	13	-
5	<sup>2</sup> Of which: wholesale	1,681	129	-	-	-	1,810	-	401	-	50	-
6	<sup>1</sup> Of which: re-securitization <sup>2</sup>	-	-	-	-	-	-	-	-	-	-	-
7	<sup>2</sup> Of which: senior	-	-	-	-	-	-	-	-	-	-	-

(a) Disclosure balances reflect credit exposure (EAD) after other than temporary provisions for loan losses or impairments, before the effect of credit risk mitigators including guarantees.

Legend

KM	Key Metrics
OV	Overview
CC	Capital Composition
LR	Leverage Ratio
CR	Credit Risk
CCR	Counterparty Credit Risk
MR	Market Risk
LIQ	Liquidity
REM	Compensation
LI	Linkages
SEC	Securitization