Bank Leumi

Risk Management Report

As at December 31 2021

The Risk Management Report is available on the Bank's website at: www.leumi.co.il and on the Israel Securities Authority’s MAGNA website at www.magna.isa.gov.il.

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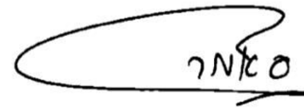
Part 1 - Overview

Risk Management Report

We are pleased to present the Risk Management Report as at December 31 2021 (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 2021 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

Liat Shuv
EVP, Head of Risk Management Division

March 8 2022

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 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 2021 Report of the Board of Directors and Management (hereinafter: the “Report of the Board of Directors and Management”).

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 affect", "scenarios", "stress scenarios", " assessment", 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 forecasted, 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 2021, 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. The banking Group's foreign offices are regulated by the respective regulators in their countries of operation, which have adopted the Basel Committee's Framework, with certain changes pertaining to capital adequacy, liquidity and leverage requirements.

C. The main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israel and abroad are as follows:

1. 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 equity and bond investments in foreign-based companies. Any increase in investment or decrease in holding any type of means of control to less than 80 percent requires prior approval by the Bank of Israel.
2. The US subsidiary (BLUSA) - The US authorities restrict local banks' extent of exposure - of any type - to related companies. The maximum allowed exposure rate to a related company is 10 percent of the Bank's capital in the United States, and the US subsidiary's maximum allowed exposure to the Group is 20 percent of its capital.
3. The UK subsidiary (BLUK) - The UK authorities restrict local banks' extent of exposure - of any type - to related companies. BLUK's maximum rate of exposure to the Group's companies (excluding Bank Leumi le-Israel B.M.) is 25 percent of BLUK's capital. Under a waiver issued by the British regulator, BLUK may increase its exposure to Bank Leumi le-Israel B.M. to 100 percent of the Bank's capital in the UK. Provided the organization change in the UK office is completed, as outlined in the section entitled Main Investee Companies in the Report of the Board of Directors and Management as at December 31 2021, this restriction will not longer apply.

For more information regarding investee companies, please see the section entitled "Major Investees" in the Report of the Board of Directors and Management and Note 15 to the Financial Statements as at December 31 2021.

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

Key Prudential Metrics (KM1)

	On a consolidated basis, as at:	A **December 31 2021**	B September 30 2021	C June 30 2021	D March 31 2021	E December 31 2020
	Available capital (in NIS millions)					
1	Common Equity Tier 1 capital[a]	**43,117**	42,946	42,014	40,446	39,262
1A	Common Equity Tier 1 capital, before the effect of adjustments for the efficiency plans	**43,013**	42,822	41,873	40,215	38,975
2	Tier 1 capital[a]	**43,117**	42,946	42,014	40,446	39,262
2A	Tier 1 capital, before the effect of adjustments for the efficiency plans	**43,013**	42,822	41,873	40,215	38,975
3	Total capital[a]	**53,265**	53,238	52,345	50,779	51,559
3A	Total capital, before the effect of adjustments for the efficiency plans	**52,937**	52,873	51,943	50,278	48,764
	Risk-weighted assets (in NIS millions)					
4	Total risk-weighted assets (RWA)[a]	**374,776**	362,999	350,636	344,723	330,851
	Capital adequacy ratios, as per the Banking Supervision Department's directives (in %)					
5	Common Equity Tier 1 capital ratio[a]	**11.50%**	11.83%	11.98%	11.73%	11.87%
5A	Common Equity Tier 1 capital ratio, before the effect of adjustments for the efficiency plans	**11.47%**	11.79%	11.94%	11.67%	11.78%
6	Tier 1 capital ratio[a]	**11.50%**	11.83%	11.98%	11.73%	11.87%
6A	Tier 1 capital ratio, before the effect of adjustments for the efficiency plans	**11.47%**	11.79%	11.94%	11.67%	11.78%
7	Total capital ratio[a]	**14.21%**	14.67%	14.93%	14.73%	15.58%
7A	Total capital ratio, before the effect of adjustments for the efficiency plans	**14.12%**	14.56%	14.81%	14.58%	14.74%
11A	Common Equity Tier 1 capital ratio set by the Banking Supervision Department[b]	**9.19%**	9.18%	9.20%	9.21%	9.23%
12A	Common Equity Tier 1 capital ratio available, beyond that set by the of Banking Supervision Department[b]	**2.31%**	2.65%	2.78%	2.52%	2.64%
	Leverage ratio pursuant to the Banking Supervision Department's directives[c]					
13	Total exposures (in NIS millions)	**711,125**	666,818	651,119	612,517	597,538
14	Leverage ratio (in %)	**6.06%**	6.44%	6.45%	6.60%	6.57%
14A	The leverage ratio, before the effect of adjustments for the efficiency plans (in %)	**6.05%**	6.42%	6.43%	6.57%	6.52%
	Liquidity coverage ratio pursuant to the Banking Supervision Department directives[d]					
15	Total high-quality liquid assets (in NIS millions)	**189,707**	191,278	178,372	167,882	159,197
16	Total cash outflows, net (in NIS millions)	**153,487**	145,724	138,432	129,494	115,863
17	Liquidity coverage ratio (in %)	**124%**	131%	129%	130%	137%
	Net Stable Funding Ratio pursuant to the Banking Supervision Department's directives[e]					
18	Total available stable funding	**379,338**				
19	Total Required Stable Funding (RSF)	**290,290**				
20	Net Stable Funding Ratio (in %)	**131%**				

Please see comments below.

Comments:

These data include adjustments for the efficiency plans prescribed in the Supervisor of Banks' 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. NIS 78 million were deducted from the balances of risk-weighted assets due to adjustments in respect of the operational efficiency plans (as of September 30 2021, NIS 89 million were deducted, as of June 30 2021, NIS 104 million were deducted, as of March 31, NIS 7 million were deducted, as of December 31 2020, NIS 1 million were added).

The minimum Tier 1 capital ratio and minimum total capital ratio required until March 31 2020 are 10 percent and 13.5 percent, 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 percent and 12.5 percent respectively. To Common Equity Tier 1 capital was added a capital requirement of 1 percent 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 percent for Common Equity Tier 1 capital ratio (with the addition capital requirements for housing loans balance) and 13.5 percent 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.

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: credit risks - which are integral to the Bank’s core business, as well as capital market and liquidity risks. In addition to managing financial risks, the Bank’s activities involves 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 risk, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, environmental 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.

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.

Information on how to manage risk for each of the key risks can be found within the Report, as follows:

Disclosure topic	General	Credit Risk[2]	Market risk, including IRRBB	Operational risk
Business model and overall risk profile	9-14	35-36	70-73	93
Corporate governance structure	10-14	36	70	93
Communications channels	9-14	35-36	70-73	93
Risk measurement systems	10, 13	36	72-73	93
Process of reporting risk information to the Board of Directors and management	11-14	35-36	70-73	93
Stress tests (qualitative information)	14	36	73	
The strategies and processes for managing, hedging and mitigating risks arising from the business model	13-14	35-36	70-73	93-95

[2] Excluding counterparty credit risk exposures and securitization exposures which are detailed in Part 5A and Addendum B, respectively.

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 (for example: Mortgage via Zoom, PEPPER, and VIDEA). 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 2021.

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 Accounting Officer - 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.

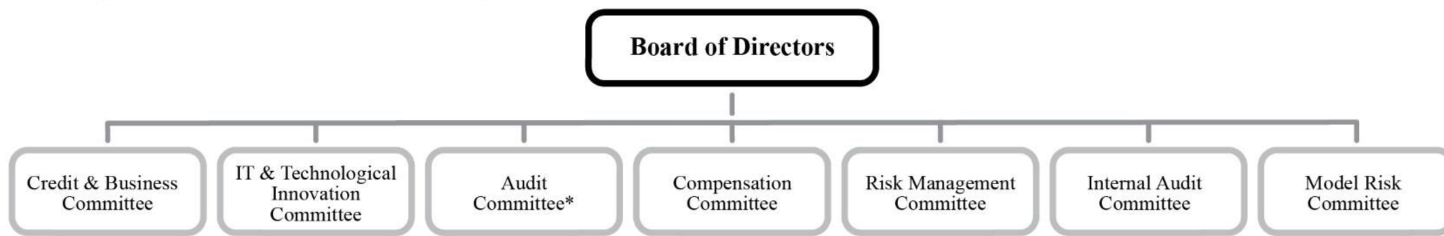
The Bank is implementing a Group-wide risk management framework, which includes corporate governance and control principles, insofar as they do not contradict local law and regulatory provisions in the foreign offices. A chief risk officer is appointed for each Israeli and foreign subsidiary, reporting to the subsidiary CEO and indirectly (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:

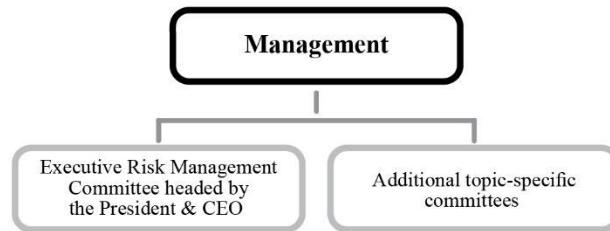
- The Risk Management Committee of the Board of Directors
- Board Of Directors' Audit Committee
- The Credit and Business Committee of the Board of Directors
- The Executive Risk Committee, which is headed by the President and CEO and whose members include all of members of management
- Various risk 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.

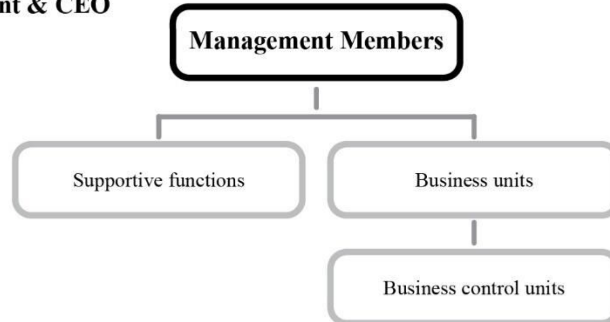
The Bank's Corporate Governance for Risk Management



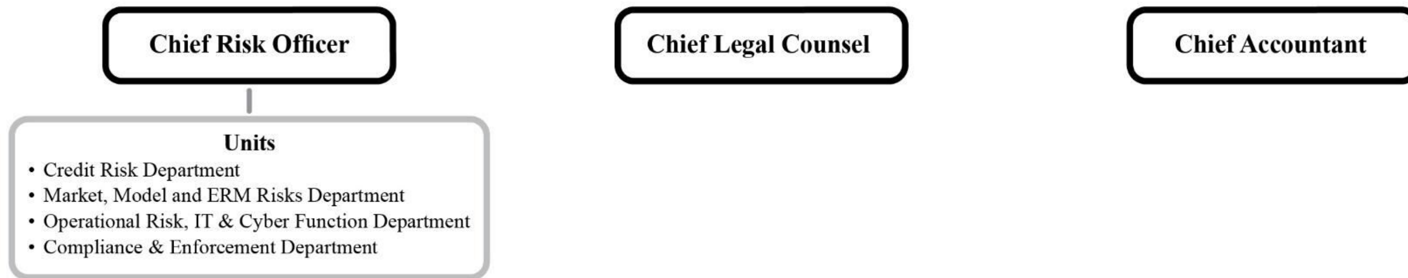
* Also serves as the Financial Statements Review Committee.



First line of defense - reporting to the President & CEO



Second line of defense - reporting to the President & CEO



Third line of defense - reporting to the Board of Directors

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'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 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 submitted to the Banking Supervision Department in February 2022.

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 and approved at the Board level as part of the ICAAP process. In February 2022, the Group's updated risk appetite was confirmed as part of the ICAAP paper.

The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

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. Quantitative and qualitative metrics were set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

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.

Since 2012, the Bank of Israel's Banking Supervision Department has been performing a macroeconomic stress test for the banking system, based on a global 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 fourth quarter of 2021, the effects of the uniform stress scenario – as defined by the Bank of Israel - for 2021 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.

During the second quarter of 2021, it was decided to separate the cyber risk and operational risk assessment due to the uniqueness of the risk and its implications. The cyber risk continues to be estimated as "moderate-high" and the operational risk is estimated as "moderate", i.e. the operational risk is one level lower - from "moderate-high" to "moderate", as a result of the stability of the operational environment, with emphasis on handling the coronavirus crisis. In the third quarter, the severity level of the overall credit risk and the severity of the borrower and collateral quality risk decreased from "moderate-high" to "moderate". As a result of the expansion of economic activity and improvement in the labor market, in addition to the time, knowledge and experience gained around the world, contributed to the reduced level of uncertainty as a result of the Covid-19 crisis.

In the third quarter of 2021, it was decided to add a reference to models risk to the table describing the risk factors' severity. In recent years, the number of models used by the Bank is on the rise, as is the use of and reliance on models for significant business processes in the Bank. The risk is assessed as "moderate", primarily due to the sensitivity of the risk management to the impact of external factors and current correlation to other risks.

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 2021.

Bank Leumi USA - Merger Agreement

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

Valley Bank is a banking holding company the owns Valley National Bank (hereinafter - "Valley Bank"). Valley Bank Was established in 1927. Once the transaction will have been completed, Valley Bank is expected to be the 29th largest bank in the US traded on NASDAQ.

Following the completion of the transaction and execution of the merger procedures, BLC will be merged into Valley and BLUSA will be merged into Valley Bank (hereinafter - the "Merger Agreement"). The consideration of the transaction will be paid to the Bank in Valley shares (90 percent of the consideration) and the rest - in cash. Following the completion of the transaction, the Bank is expected to hold 14.2 percent of Valley's share capital and to be the largest shareholder in Valley, but not the controlling shareholder.

The expected gain for the Bank from the completion of the transaction is NIS 650-750 million, after tax. The final gain will be determined in accordance with the share price, BLC's shareholders' equity and the exchange rate immediately prior to the date of completion.

The Bank believes that the transaction will improve Leumi's capital ratios by 0.5 percent.

As of the report publication date, all the conditions precedent included in the merger agreement and shareholders' agreement have been met. The transaction completion date is expected to be April 1 2022.

For more information regarding the merger agreement, please see Note 36 to the financial Statements as at December 31 2021.

Bank Leumi UK (BLUK)

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 (hereinafter – the "Merged Company"). The Merged Company will provide credit primarily in the fields of real estate, hotels and ABL, to customers in the UK and Europe, including Israeli customers active in these geographies.

The implementation of the move is contingent on several conditions, including – a final decision by BLUK's board of directors and LABL's board of directors, receiving a permit from the Bank of Israel, receiving the approval of the British regulator and meeting the requirements of English law to complete the move. The move is not expected to have a material effect on the Bank's financial results.

Ending of a labor dispute

On August 1 2021, the Bank received an announcement regarding a labor dispute declared at the request of the Bank employees' representatives by the New Histradrut Workers' Union – MAOF, in accordance with the Labor Dispute Settlement Law, 1957. Further to the settlement of the issues which are the subject matter of the announcement, on February 24 2022, the New Histradrut Workers' Union – MAOF announced the ending of the dispute.

Impact of the coronavirus crisis

In 2021, the coronavirus pandemic continued; towards the end of the year, and even more so at the onset of 2022, the fifth surge of morbidity emerged, characterized by a high infection rate causing widespread morbidity among Israelis, as well as around the world. Central banks across the world are still using a variety of tools to support economic activity; however, only in some of these countries changes have been made, and monetary expansion is on the decline.

Towards the end of 2020, vaccinations were authorized and in some leading world countries, the vaccination process appears to be relatively successful, which has contributed to the lifting of restrictions. In all other countries, the vaccination roll out was so far relatively slow; therefore, those countries, and specifically countries defined as emerging markets, still have high levels of exposure to the economic risks stemming from restrictions due to infection rates.

The loan loss income in 2021 totaled NIS 812 million; this income was materially affected by collections, declining morbidity rates, improvement in macroeconomic parameters and economic expansion in Israel in 2021, of which a revenue of 0.10 percent was recorded in the collective provision. The effects of the measures and aid programs approved at the beginning of the crisis are dwindling, following positive indications regarding the population segments which enjoyed these aid programs - both among households and business borrowers, such as: the high rates of borrowers who resumed their regular payments following the deferment period, the low rate of borrowers in arrears out of the borrowers who resumed payments, the high rate of borrowers given state-backed loans who have begun to repay them, the low rate of borrowers in arrears out of this population, etc.

To adequately reflect the improvement in financial data in 2021 compared with 2020, and due to the continuous nature of the crisis, the Bank continued to examine, during the fourth quarter of 2021, the key criteria for the provision-making process, and made the required revision thereto; in the process, it took into account the developments outlined above as well as the assessments whereby the risk of additional harm to the business activity as a result of the epidemiological aspect is still present but lower compared to the onset of the event; this is due to the high vaccination rates among Israel's population, the introduction of new medications to treat symptoms and mitigate severe morbidity, and the economy's adjustments to activity made during surges in morbidity. Additional changes in management's assessments, estimates and forecasts may impact the loan loss provision.

The Bank continues to look into ways to support those of its customers that found themselves in temporary crisis and whom the Bank believes will successfully get through the crisis. In this context, emphases in credit granting are continually being honed, and risk focal points and market developments are being monitored on a regular basis, while making preparations and adjusting the activity.

For more information, please see the sections entitled "Credit Risks", "Market Risks" and "Operational Risks" below.

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

The conflict between Russia and Ukraine

The military confrontation between Russia and Ukraine, which began on February 24 2022, compounds the potential for volatility and uncertainty due to global economic processes. The confrontation may cause the rate of inflation to rise rapidly around the world and trigger price hikes in Israel as well, further exacerbating the cost of living crisis in Israel. Consumers' and businesses' confidence could be indirectly harmed, not only due to higher prices, but also due to weakness in financial markets and impairment of the public's asset portfolio. The Bank is monitoring these developments, and will take action if needed.

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

Most Material and Emerging Risks

In recent years, major and 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:

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.

The coronavirus crisis has had and still has an impact on the environment in which the Bank operates - macroeconomically, industry-wise, as well as in terms of regulation, the human resource, consumer behavior and technology. The crisis has perpetuated the digital transformation trends in the banking system in recent years.

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, Data and Projects Division, which was established in September 2021 to deal with the abovementioned challenges.

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. Resources are invested differentially, in accordance with 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.

Life alongside Covid-19 has led to a significant increase in cyber-attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains. The characteristics of the attacks are varied and include ransomware, increase in phishing attempts and social engineering attacks. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and transitioning to 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 the reporting period, no cybersecurity incidents were discovered which affected Leumi's financial statements.

Technological risk

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 started 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 under "Technology and Innovation Risk" in Part 8 below.

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 the course of 2021, the Bank was proactively expanded the real estate portfolio, focusing on the housing segment and selected financially resilient customers.
Real estate is defined by the Bank as being relatively less risky than other economic sectors. This is supported by the macroeconomic forecasts, financing method, stringent supervision and backing by property collateral.

Credit granted to the real estate sector is in line with the Bank's risk appetite, according to the adequate risk level and 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.

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.

In light of the growing competition, some of the transactions carried out in the past year followed relatively lenient parameters compared to similar transactions carried out in the past. It is noted that the real estate transactions are approved through a stringent underwriting process, using adequate protections.

- According to the guidance of the Bank of Israel to the banking system, the Bank established criteria for high-risk transactions in the construction and real estate industry, which are monitored on a quarterly basis.
- The Bank examined its collective provision calculation in real estate and adjusted it in order to take into account the quick increase in the loan portfolio and certain reliefs in the underwriting terms and conditions.

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 two: physical risks and transfer risks. 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, operational risk, compliance risk, legal risk, regulatory risk, reputational risk, and liquidity risk.

The Bank regards environmental and climate-related risks as an integral part of the Bank's targets, both in order to maintain its stability and due to its central role and importance to the Israeli economy and society; it also regards this as a business-strategic opportunity.

As part of the implementing the strategy, 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.

These opportunities include, inter alia:

- Providing business credit for "green" ventures and companies
- Investing in "green" through the nostro account
- Investing in "green" companies and projects by subsidiary Leumi Partners
- Developing trading capabilities in "green" contracts
- The Bank is evaluating additional opportunities, such as issuing "green" bonds

The Bank strives to reach a target of NIS 35 billion in such initiatives by 2030. 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.
In addition, the Bank is developing "green" products and value propositions for retail customers and is examining how to support its business customers in "going green".

The Bank has developed, with the aid of international consultants, a multi-year work plan for managing environmental and climate-related risks in corporate governance aspects, and incorporating environmental and climate-related risks as an integral part of risk management in the Bank's various activities, including identification and promotion of business opportunities. As aforesaid, 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:

- The credit portfolio -
  - Boosting environmental credit - as part of the regulated work procedures, an emphasis is placed on the integration of indicators for identifying environmental credit as part of the business considerations employed to identify financing opportunities. To advance the Bank's objective of boosting environmental credit, a long-term target was set for environmental financing for the various divisions.
  - Credit risks management - The Bank is working to identify and map the environmental risks exposure, to manage and mitigate them, as far as possible. The purpose of the policy pertaining to this issue is to identify borrowers from economic sectors with high potential for credit risk exposure when making specific credit-

related decisions impacted also by the manner in which the customer manages the risk and the nature of the to transaction.

- Investments - the Bank works to regulate and establish a methodology for identifying and mapping large investments with a potential exposure to environmental risks, and identifying green business opportunities, including the integration of these considerations in new investments.
- Operations - the Bank regards maintaining a sustainable environment as highly important; to that end, the Bank has ISO 14001 certification, under which regulations related to environmental risks are managed and monitored, including an annual inspection by the Standards Institution of Israel.

The Bank's operational work plan includes processes for reducing its electricity consumption and expanding the use of hybrid or electric vehicles in it car fleet; these processes are expected to reduce the Bank's carbon footprint by further 20% by 2027.

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

For more information and a description of key ESG metrics, see environmental and climate-related risks in Part 9 below.

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 increased consumer regulation trend continues, with emphasis conduct. In this framework, emphasis is made on adapting the various financing products to customers' needs, while providing maximum disclosure and stressing transparent and fair conduct.

Bank Leumi 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 its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of continuously upgrading them.

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

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including economic growth, a low interest rate environment, global political power relations and their impact on global trade.
The Covid-19 crisis still represents a significant global macroeconomic risk, the ramifications of the crisis for the global economy, and to a lesser extent on the domestic economy, as well as for the Bank's business, may be substantial. This crisis may leave multiple economies across the world with significant sovereign debts, a development which is liable to pose a future risk to the stability of financial markets. This constitutes severe harm to 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.

In addition to the coronavirus risk, there are risks arising from climate change and various geopolitical risks, including the current Ukranian-Russian crisis, which increase the potential for volatile global economic processes.

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.

Review of risk-weighted assets (OV1)

		A	B	C
		December 31 2021	September 30 2021	**December 31 2021**
		Risk-weighted assets		Minimum capital requirements[a]
		In NIS millions		
1	Credit risk (standardized approach)[b]	**326,498**	315,237	**40,812**
6	Counterparty credit risk (standardized approach)	**4,635**	4,810	**580**
10	Credit valuation adjustment (CVA)	**1,770**	1,603	**221**
16	Securitization exposures (standardized approach)	**505**	560	**63**
25	Amounts below the deduction thresholds (subject to a 250% risk weight)	**13,194**	13,285	**1,649**
	Total credit risk	**346,602**	335,495	**43,325**
20	Market risk (standardized approach)	**5,592**	5,111	**699**
24	Operational risk	**22,582**	22,393	**2,823**
27	Total	**374,776**	362,999	**46,847**

(A). The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required until March 31 2020 are 10 percent and 13.5 percent, 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 percent and 12.5 percent respectively. To Common Equity Tier 1 capital was added a capital requirement of 1 percent 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 percent for Common Equity Tier 1 capital ratio (with the addition of capital requirements for the outstanding balance of housing loans) and 13.5 percent 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[(a)]

	For the year ended December 31	
	2021	2020
	In NIS millions	
Opening balance	**303,356**	288,340
Change in transactions	**44,683**	14,464
Collateral insurance pursuant to the Sales Law	**1,012**	(665)
Rating changes	**193**	551
Exchange rate differentials	**(2,033)**	(2,647)
Entry into/exit from credit default	**7**	541
Net derivative transactions	**354**	710
Change in CVA	**248**	202
Deferred taxes	**(486)**	777
Other assets	**(1,202)**	1,268
Other	**470**	(185)
Closing balance	**346,602**	303,356

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

Movement in market risk-weighted assets

	For the year ended December 31	
	2021	2020
	In NIS millions	
Opening balance	**5,313**	5,008
Interest rate risk - change in open positions	**766**	(495)
Foreign currency risk - change in open positions - USD, GBP, euro and yen	**(608)**	504
Equity risk - change in futures and options on stock indices	**(100)**	137
Options risk - change in currency options - NIS/forex and forex/forex	**221**	159
Closing balance	**5,592**	5,313

Changes in operational risk-weighted assets

	For the year ended December 31	
	2021	2020
	In NIS millions	
Opening balance	**22,182**	23,116
Change	**400**	(934)
Closing balance	**22,582**	22,182

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 2021										
	Activity in Israel									Foreign operations	Total
	Households	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutionals	Financial management	Other segment	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**

	December 31 2020										
	Activity in Israel									Foreign operations	Total
	Households	Private banking	Small- and micro-businesses	Mid-sized businesses	Corporations	Institutionals	Financial management	Other segment	Total for Israel		
	In NIS millions										
Credit Risk	73,153	275	44,378	30,956	91,661	237	19,232	17,500	277,392	25,964	303,356
Market risk	-	-	-	-	-	-	5,026	-	5,026	287	5,313
Operational risk	5,814	420	4,758	1,850	3,211	516	2,544	1,005	20,118	2,064	22,182
Total risk-weighted assets	78,967	695	49,136	32,806	94,872	753	26,802	18,505	302,536	28,315	330,851

Part 3 - Capital

Composition of the Bank's Regulatory Capital (CC1)

		December 31 2021		December 31 2020		
		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	**7,225**	**-**	7,225	-	1
2	Reserves, including dividend proposed or declared after the balance sheet date	**37,209**	**-**	33,178	-	2
3	Accumulated other comprehensive income and reserves for which disclosure was made	**(2,824)**	**-**	(2,739)	-	3
5	Common share capital issued by subsidiaries of the banking corporation which were consolidated and held by a third party (minority interests)	**300**	**-**	295	-	4
6	Common Equity Tier 1 capital before regulatory adjustments and deductions	**41,910**	**-**	37,959	-	-
	Common Equity Tier 1 Capital: Regulatory Adjustments and Deductions					
8	Goodwill	**178**	**-**	150	-	6
10	Deferred taxes receivable whose use depends on the banking corporation's future profitability	**-**	**-**	-	-	8
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	**23**	**-**	13	-	9
21	Deferred taxes receivable incurred as a result of timing differences, whose total exceeds 10% of the Common Equity Tier 1 capital	**1,686**	**-**	2,478	-	10
26	Additional regulatory adjustments and deductions prescribed by the Banking Supervision Department	**(3,094)**	**-**	(3,944)	-	-
26C	Of which: calculation of the regulatory capital, based on an 8-quarter average discount rate of the pension obligation	**(1,303)**	**-**	(1,952)	-	-
26C	Of which: For the effect of the efficiency plans	**(104)**	**-**	(286)	-	-
26C	Of which: Deduction of payroll tax component from deferred tax asset	**(1,687)**	**-**	(1,706)	-	-
28	Total regulatory adjustments and deductions to Common Equity Tier 1 capital	**(1,207)**	**-**	(1,303)	-	
29	Common Equity Tier 1 capital	**43,117**	**-**	39,262	-	
45	**Tier 1 capital**	**43,117**	**-**	39,262	-	
	Tier 2 capital: Instruments and provisions					
46	Instruments issued by the banking corporation (that are not included in Common Equity Tier 1 capital) and premium on these instruments	**5,848**	**-**	5,930	-	11A
47	Tier 2 capital instruments issued by the corporation that are qualified for inclusion in regulatory capital in the transitional period	**224**	**-**	2,508	-	11
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation and to third party investors	**81**	**-**	67	-	5
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**	**-**	67	-	-
50	Collective provisions for loan losses before the relevant tax effect	**3,995**	**-**	3,792	-	12
51	Tier 2 capital before deductions	**10,148**	**-**	12,297	-	
58	**Tier 2 capital**	**10,148**	**-**	12,297	-	
59	**Total capital**	**53,265**	**-**	51,559	-	

		December 31 2021		December 31 2020		
		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	**374,776**	-	330,851	-	-
	Capital ratios and buffers (in %)					
61	Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	**11.50%**	-	11.87%	-	-
62	Tier 1 capital (as a percentage of risk-weighted assets)	**11.50%**	-	11.87%	-	-
63	Total capital (as a percentage of risk-weighted assets)	**14.21%**	-	15.58%	-	-
	Minimum requirements set by the Banking Supervision Department[(a)]					
69	Minimum CET1 capital ratio set by the Banking Supervision Department	**9.19%**	-	9.23%	-	-
71	Minimum total capital ratio set by the Banking Supervision Department	**12.50%**	-	12.50%	-	-
	Amounts below the deduction threshold (before risk weighting)					
72	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	**688**	-	690	-	14
73	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	**133**	-	136	-	15
75	Deferred taxes receivable created incurred as a result of timing differences that are below the deduction threshold	**4,171**	-	3,780	-	16
	Ceiling for including provisions in Tier 2					
76	Provision that qualifies for inclusion in Tier 2 relating to exposures under the standardized approach, prior to implementing the ceiling	**3,995**	-	4,507	-	-
77	Ceiling for inclusion in Tier 2 under the standardized approach	**4,333**	-	3,792	-	-
	Equity instruments not qualified as regulatory capital subject to the transitional provisions					
84	Amount of the present ceiling for instruments included in Tier 2 capital subject to the transitional provisions	**224**	-	2,508	-	-
85	Amount deducted from Tier 2 capital due to the ceiling	**1,231**	-	401	-	-

Comments:

(A). The minimum Common Equity Tier 1 capital ratio and minimum total capital ratio required until March 31 2020 are 10 percent and 13.5 percent, 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 percent and 12.5 percent respectively. To Common Equity Tier 1 capital was added a capital requirement of 1 percent 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. 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

Equity attributable to the Bank's shareholders totaled NIS 41,610 million on December 31 2021 compared with NIS 37,664 million as at the end of 2020.

The change in the equity capital was primarily affected by the profit for 2021 and the dividend paid during the year.

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 reached 6.3 percent on December 31 2021, compared with 6.8 percent at December 31 2020.

Common Equity Tier 1 capital was 11.50 percent as at December 31 2021, a 0.37 percent decrease compared to December 31 2020, mostly as a result of the increase in the loan portfolio, which resulted in an increase in the credit risk assets, as well as an increase in capital which arose mainly from the net income less dividend.

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' 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 and additional deductions.

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

Additional adjustments to Common Equity Tier 1 capital arising from the implementation of operational efficiency plans and the method of calculating the discount rate used to calculate the employee benefits liability, as detailed below.

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.

It is noted that, 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 mainly includes equity instruments and the balance of the Group's collective loan loss provision, subject to the ceiling prescribed by the directives.

As at December 31 2013, equity instruments included in Tier 2 capital are subject to transitional provisions and a recognition ceiling, as prescribed by the Directives, such that the amount recognized in effect in respect thereof is the lower of the amortized amount of the instruments and the recognition ceiling based on the balance of capital instruments included in Tier 2 capital as at December 31 2013, which is amortized at the beginning of each year by 10 percent until January 1 2022. The recognition ceiling for 2021 was 10 percent.

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 are that the instrument must include are as follows: (1) A mechanism for absorbing reserve losses by way of conversion to common shares or amortization of the instrument when the banking corporation's Common Equity Tier 1 capital ratio falls below 5 percent; (2) A clause determining that, on the occurrence of the trigger 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 common shares or written off.

For more information regarding Tier 2 capital instruments redeemed in 2021, please see section entitled "Bonds, Capital Notes and Subordinated Bonds" in th Report of the Board of Directors and Management.

For a description of the main features of regulatory capital instruments which have been issued, please see the Bank's website: www.leumi.co.il under About us > Financial information > Disclosure under Pillar 3 of the Basel Accord and Additional Information on Risks.

Movement in the composition of the regulatory capital

	For the year ended December 31	
	2021	2020
	In NIS millions	
Common Equity Tier 1 capital		
Balance at beginning of period	**39,262**	37,603
Non-cash issue	**-**	(13)
Increase (decrease) in premium	**-**	(237)
Net income for the period less dividend	**4,031**	1,805
Retained earnings reserves in respect of associates	**(6)**	(3)
Unrealized gains (losses) from adjustments of available-for-sale securities	**(275)**	534
Capital reserves in respect of employee benefits	**255**	215
Increase in capital reserves (other and associates)	**(22)**	24
Effect of the efficiency plans	**(182)**	(179)
Effect of transitioning to the pension obligation discount rate according to an 8-quarter moving average	**(64)**	(319)
Movement in the translation differences reserve in respect of subsidiaries	**(37)**	(67)
Minority interests	**5**	29
Regulatory adjustments and deductions		
Goodwill and intangible assets	**(28)**	(2)
Change in deferred taxes as a result of discounting a pension obligation according to a moving average	**188**	(188)
Change in deferred taxes as a result of the efficiency plans	**-**	62
Accumulated gains/losses arising from changes in own credit risk for financial liabilities at fair value	**(10)**	(2)
Net increase in Common Equity Tier 1 capital	**3,855**	1,659
Balance as at end of period	**43,117**	39,262
Tier 2 capital		
Balance at beginning of year	**12,297**	11,987
Deduction of subordinated bonds pursuant to the transitional provisions	**(2,284)**	(1,855)
Issuing qualifying subordinated bonds	**(82)**	1,481
Minority interests	**14**	(18)
Movement in collective provision	**203**	702
Net increase (decrease) in Tier 2 capital	**(2,149)**	310
Balance as at end of period	**10,148**	12,297
Total capital as at the end of period	**53,265**	51,559

Please see comments below.

Comments:
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+2-1, and a NIS 203 million increase in the collective provision.
The changes in the Tier 1 capital in 2020 are mainly due to a net income for the period less a NIS 1,805 million dividend, unrealized gains from adjustments of available-for-sale securities in the amount of NIS 534 million, a decrease in capital following a decrease in the premium on a NIS 250 million share buyback; a decrease in additional funds in the amount of NIS 205 million and a higher deduction for deferred taxes in the amount of NIS 125 million. The change in Tier 2 capital arises from a NIS 374 million decrease in the regulatory capital instruments due to a NIS 1,454 million decrease as a result of the effect of the lowering of the recognition ceiling in respect of these instruments from 30 percent to 20 percent; the instruments no longer qualify and are subject to deduction in accordance with the transitional provisions, increase in Tier 2 capital due to the issuance of qualifying bonds in the amount of NIS 2,411 million, and early redemption of Series 400 in the amount of NIS 926 million. In addition, the book balance of qualifying regulatory capital instruments is higher than the balance according to the transitional provisions, and therefore the amount recognized for Tier 2 capital was reduced by NIS 401 million. On the other hand, Tier 2 capital was up by approximately NIS 700 million 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 Regulations 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 and the current exposure approach regarding counterparty 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 percent 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 percent, and a total capital ratio of at least 13.5 percent, beginning on January 1 2017. This requirement applies to Leumi.

Additionally, under Proper Conduct of Banking Business Directive No. 329, Restrictions on Granting Housing Loans, a banking corporation is required to increase its Common Equity Tier 1 capital target by a rate which reflects 1 percent of the outstanding balance of its housing loans. On October 6, 2021, the Banking Supervision Department published a revised FAQ - "Limitations on Issuing Housing Loans", in which it clarified that the requirement to increase the capital target by a rate which reflects 1 percent of the outstanding housing loans amount refers to the internal CET1 target only, and applying it to the total capital target is not mandatory. Accordingly, the minimum total capital ratio required by the Banking Supervision Department was adjusted - please see Note 25B in the Report of the Board of Directors and Management as at December 31 2021.

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 percent 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 percent and a ratio of total capital to risk-weighted assets that shall not fall below 12.5 percent (in lieu of 10 percent and 13.5 percent, respectively, prior to the circular's publication date). The directive is applicable to Leumi.

On November 15 2020, under a temporary order, the Bank of Israel published a circular amending Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", such that a banking corporation whose total consolidated assets constitute at least 24 percent of the Israeli banking sector's total assets shall have a consolidated leverage ratio of no less than 5.5 percent (in lieu of 6 percent prior to the circular's publication).

On the back of the continued unfolding of the coronavirus and its ramifications on the economy worldwide and in Israel, the Banking Supervision Department decided to extend the validity of the temporary order from time to time. On December 27, 2021, the Banking Supervision Department published a circular according to which, as of January 1 2022, the temporary order will expire, except for specific provisions with a later expiry date; on January 18 2022, the Banking Supervision Department published another circular, according to which the temporary order would not be revoked, but rather revised.

According to the circulars, the capital targets easement are until December 31, 2023, provided that the banking corporation's capital ratio shall be no less than the capital ratios in December 31 2021 or the minimum capital ratios applicable to the corporation prior to the temporary order, whichever the lower. As of December 31, 2021, the CET1 capital ratio of Leumi is 11.50 percent and the total capital ratio is 14.21 percent; therefore, as of January 1, 2022, Leumi is subject to the minimum capital targets in effect prior to the temporary order - i.e. the CET1 capital ratio shall not fall below 10 percent, and the total capital ratio shall not fall below 13.5 percent. In addition, the circular states, that in the period until June 30 2022, a decrease of up to 0.3 percent in the capital ratios shall not be deemed as deviating from the required capital ratios, subject to strict, conservative capital planning and reporting to the Banking Supervision Department.

Regarding the leverage ratio, he easement will be in effect until December 31 2023, provided that the leverage ratio will not fall below the lower of: the leverage ratio as at June 30 2022 or the minimum leverage ratio applicable to a banking corporation prior to the temporary order. In addition, using the easement will not prevent the distribution of dividend, subject to an overall capital planning aimed at reverting to the required leverage ratio.

The Temporary Order stated that for housing loans in the crisis period, (extended as if March 19 2020 and until September 30 2021), the additional capital requirement of 1 percent of the outstanding loan will not be applied, as set out in Section 14A to Proper Conduct of Banking Business Directive No. 329, "Restrictions on Granting Housing loans". 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 2021, is 0.19 percent in terms of CET1.

Accordingly, the minimum capital requirements applicable to the Bank as at December 31 2021 are 9.19 percent to Common Equity Tier 1 capital (including capital requirement for outstanding housing loans) and 12.50 percent for total capital ratio. As from January 1 2022, the minimum capital requirements applicable to the Bank are 10% for Common Equity Tier 1 capital ratio (including the capital requirement for the outstanding balance of housing loans) and 13.50% for total capital 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 on the ICAAP process and the use of stress tests, please see the chapter on additional information on risk exposure and its evaluation in 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 percent, as of December 31 2017.

In light of the aforesaid letter issued on March 29 2020 by the Banking Supervision Department and the Temporary Order, and in following the reduction in the minimum regulatory requirements applicable to banks following the coronavirus crisis, as stated above, the Bank's Board of Directors decided on April 16 2020 to set an internal Common Equity Tier 1 capital of 10.5 percent in lieu of 9.5 percent.

For further information, please see the immediate report dated April 16 2020 (Ref. No.: 2020-01-034294).

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 percent as was prior to the coronavirus crisis.

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 percent 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.

As part of the implementation of this policy, and until the Board of Directors' decision of April 16 2020 to put an end to the dividend distribution and to the Bank's share buyback plan in light of the coronavirus crisis, the Bank used to distribute a dividend of up to 40 percent of the quarterly net income and to regularly carry out a share buyback plan.

According to the Banking Supervision Department's guidance regarding distribution of dividends during the coronavirus crisis, the Bank distributed, in September 2021, NIS 630 million, representing 30 percent of the net income for 2020; in December 2021, the Bank distributed NIS 1,367 in dividends, representing 30 percent of the net income for the first nine months of 2021.

In the Banking Supervision Department circular dated December 27 2021, limitations on distribution of dividends were revoked and banking corporations were instructed to exercise due caution when examining their business model, as well as take into account the remaining uncertainty in the markets, due, among other things, to new virus mutations.

Accordingly, on March 8 2022, the Board of Directors approved a distribution of dividends in the amount of NIS 588 million, which constitutes 40 percent of the net income for the fourth quarter of 2021, as it did for every quarter prior to the coronavirus crisis. The dividend approved is 40.481 agorot per share of NIS 1 par value. The Board of Directors has set March 29 2022 as the record date for dividend payment and April 6 2022 as the payment date.

Details on Paid Dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS millions
February 26 2020	March 23 2020	20.29	297
August 12 2021	September 2 2021	43.36	630
November 15 2021	December 12 2021	94.11	1,367

Adjustments to Common Equity Tier 1 capital

Measurement of the Employee Benefits Liability

The employee benefits standard, which was first applied in January 2015, has a material effect on Leumi's Common Equity Tier 1 capital, mainly due to the fact that the liability is measured in accordance with market interest rates, and the volatility that such measurement generates in the Bank's regulatory capital.

In July 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount interest is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented beginning from the financial statements for the period ended June 30 2016.

On January 13 2020, the Bank of Israel received approval to extend its validity until the financial statements as at December 31 2024 (inclusive).

The method change moderates the volatility of the Bank's regulatory capital resulting from changes in the capitalization interest rate.

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 2021.

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. Pursuant to the letters, a banking corporation which meets the prescribed conditions will be granted a relief, whereby it will be able to spread the effects of the efficiency plans on the regulatory capital on a straight-line basis, over a period of five years. The validity of the Banking Supervision Department was extended until December 31 2021, in an effort to allow the formulation of additional efficiency plans.

In June 2016, the Bank's Board of Directors approved an efficiency plan, for a total cost of NIS 438 million (after tax). As of December 31 2021, 100 percent of the plan's costs are attributable to regulatory capital.

In July 2017, the Bank's Board of Directors approved an additional efficiency plan, for a total cost of NIS 204 million (after tax). As of December 31 2021, 90 percent of the plan's costs are attributable to regulatory capital.

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 2021, 50 percent 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. Inter alia, changes were made in the method of calculating capital requirements according to the standardized approach to credit risk, a uniform standardized approach was prescribed with regard to operational risk, and changes were made in market risk measurement. In March 2020, the body overseeing the Basel Committee published a notice whereby 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. Presently, the Bank does not know how and when these rules will be adopted by Israel's Banking Supervision Department.

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

On December 26 2021, the Banking Supervision Department published a circular revision to the Proper Conduct of Banking Business Directive No. 203, "The Standardized Approach - Credit Risk". Under the circular, the risk weight attributed to insurers, provident funds and mutual funds was made the same as the risk weight attributed to banking corporations.

Directives pertaining to the attribution of capital for derivative financial instruments

In April 2019, the Banking Supervision Department announced plans to begin implementing the Basel 2014 Guidelines "The Standardized Approach for Measuring Counterparty Credit Risk Exposures" (SA-CCR); and on December 1 2021, the Banking Supervision Department published a circular regarding application of Proper Conduct of Banking Business Directives 203A and 208A. According to the circular and another circular published on February 21 2022, the application date of Directive 203A, Handling Counterparty Credit Risk, will be July 1 2022, and the application date of Directive 208A, Value Adjustment for Credit Risk, will be January 1 2025. On February 7 2022, the Banking Supervision Department published another draft circular, which includes various clarifications (FAQ) for Directive 203A; and on March 3 2022, the Banking Supervision Department published another draft circular which includes a revision to Proper Conduct of Banking Business No. 203, "Measurement and Capital Adequacy – the Standardized Approach – Credit Risk" and Proper Conduct of Banking Business No. 218, "Leverage Ratio" to Directive 203A. The Bank is examining the effects of the said directives and continues to prepare for its implementation. It is impossible to evaluate their expected effect at this point.

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"

On December 2020, the Banking Supervision Department published a circular entitled "Regulatory Capital - Effect of Implementation of Accounting Principles regarding Expected Loan Losses". The circular established transitional provisions which will be applied to the effect of first-time adoption of the new rules regarding expected loan losses, in order to reduce the unexpected effect of the implementation of the rules on the regulatory capital.

Additionaly, in February 2021, the Banking Supervision Department published a circular entitled "Expected Loan Losses from Financial Instruments", adjusting Proper Conduct of Banking Business Directives to the new rules regarding expected loan losses. Among other things, Proper Conduct of Banking Business Directive No. 202 was revised, entitled "Capital Measurement and Adequacy - Regulatory Capital", and banking corporations will be required, as of January 1 2022, to deduct from CET1 amounts to cover for housing loans classified over time as non-accrual. The circular states that the requirement to calculate collective provision at a minimum rate of 0.35 percent for housing loans will be cancelled, as will be the requirement to calculate a minimum provision based on the extent of arrears.

The new directives will become effective on January 1 2022. In accordance with the transitional provisions published by the Banking Supervision Department, if as a result of the first-time adoption, there will be a decrease in the CET1, it will be possible to add partially in the CET1 (i.e., to add back to CET1) the decrease in CET1 that will be recorded on first-time application date, over a period of three years (with an additional 75 percent in the first application year and a 25 percent reduction per year, until reaching 0 percent 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 Report of the Board of Directors and Management as at December 31 2021.

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

- A change in the volume of risk-weighted assets – Leumi's risk-weighted assets amounted to approx. NIS 374.8 billion at the end of December 2021. Each NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio by approximately 0.03 percent and the total capital ratio by approximately 0.04 percent.
- Change in Common Equity Tier 1 capital - as at the end of December 2021, Common Equity Tier 1 capital amounts to approximately NIS 43.1 billion. Each NIS 100 million decrease in Common Equity Tier 1 capital will reduce the Common Equity Tier 1 capital ratio and the total capital ratio by approximately 0.02 percent.
- Change in the exchange rate - a 1 percent 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 percent.
- Liabilities for employee benefits – The actuarial liability for employees is discounted according to an eight-quarter moving average of market yields, which are affected by the Government of Israel's bond curve and by the U.S. AA corporate bond spread. A change of 0.1 percent across the discount rate curve, under the assumption that the curve rises and falls uniformly, means a cumulative effect of 0.06 percent on the Common Equity Tier 1 capital ratio and total capital ratio. Of which, according to a moving average calculation for eight quarters, effect of 0.01 percent on the Common Equity Tier 1 capital ratio and the total capital ratio for the current quarter.

For the Bank's assessment regarding the expected effect of the completed merger between BLC and Valley on Leumi's capital ratios, please see below under "Major Investee Companies" in the financial report as at December 31 2021.

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. When calculating the leverage ratio, the following were taken into account, inter alia: The effect of the implementation of the efficiency plan and adjustments in respect of the application of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities.

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

		December 31	
		2021	2020
		In NIS millions	
1	Total assets according to the consolidated financial statements	**656,454**	556,035
	Adjustments for:		
4	Derivative financial instruments	**(1,515)**	(6,797)
6	Off-balance sheet items	**52,789**	44,377
7	Other	**3,397**	3,923
8	Exposure for leverage ratio purposes	**711,125**	597,538

Leverage ratio (LR2)

	Item	December 31 2021	2020
		In NIS millions	
	Balance sheet exposures		
1	Balance sheet assets (excluding derivatives and securities financing transactions but including collateral)	**635,352**	538,395
2	Amounts for assets deducted for the purpose of determining Tier 1 capital	**(178)**	(276)
3	**Total balance sheet exposures** (excluding derivatives and transactions to finance securities)	**635,174**	538,119
	Exposures for derivatives		
4	The replacement cost associated with all derivative transactions	**1,776**	2,127
5	Additional amounts in respect of potential future exposure associated with all derivative transactions	**16,768**	11,823
7	Deductions of debtors' assets in respect of variable cash collateral provided in derivative transactions	**(6,032)**	(5,495)
11	**Total exposures for derivatives**	**12,512**	8,455
	Exposures for securities financing transactions		
12	Gross assets for securities financing transactions (excluding recognition of offsets), after adjustments for transactions accounted for as an accounting sale	**2,473**	3,114
15	Exposures for securities financing transactions as agent	**8,177**	3,473
16	**Total exposures for securities financing transactions**	**10,650**	6,587
	Other off-balance-sheet exposures		
17	Total off-balance-sheet exposure at a gross nominal value	**148,828**	136,128
18	Adjustments for conversion to credit-equivalent amounts	**(96,039)**	(91,751)
19	**Off-balance sheet items**	**52,789**	44,377
	Capital and total exposures		
20	**Tier 1 capital**[a]	**43,117**	39,262
21	**Total exposures**[a]	**711,125**	597,538
	Leverage ratio		
22	**Leverage ratio in accordance with Proper Conduct of Banking Business Directive No. 218**	**6.06%**	6.57%

(a) These data include adjustments in respect of the efficiency plan in accordance with the Banking Supervision Department's directives. The effect on the leverage ratio of the relief in respect of the efficiency plans as at December 31 2021, which is estimated at 0.01 percent, is charged over 5 years on a straight-line basis as of the plans' commencement date (0.05 percent as at December 31 2020). 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, when calculating the leverage ratio, adjustments in respect of the implementation of the discount rate calculated over a moving average of the market yield for the eight quarters ended on the reporting date, in respect of certain actuarial liabilities, as outlined above were taken into account.

For more information on capital adequacy and leverage, please see Note 25B to the financial statements as at December 31 2021.

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.

Leverage ratio as at December 31 2021 was 6.06 percent, a 0.51 percent decrease over December 31 2020.

The decrease in the leverage ratio stems from the substantial increase in total assets, mainly as a result of a NIS 61 billion increase in cash and deposits with banks and a NIS 48 billion increase in loans to the public, net. The decrease was partially offset by an increase in the Tier 1 capital, which was up mainly due to the increase in net income less dividend.

Part 5 - Credit Risk

General Qualitative Information about Credit Risk (CRA)

Credit granting is a core activity of the Bank and the Group, which is conducted in a decentralized manner by several 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 adequacy of its provision for credit losses to cover losses embodied in the credit 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 individuals; and leveraged credit.

The Bank’s credit policy paper reflects its respective risk appetite and is in line with the Bank’s strategy.

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, which are defined and managed at the group level, 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 in order to identify weaknesses as early as possible and prepare accordingly.

- Quantitative assessment of credit risk, while assigning each customer an internal risk rating.
- Setting internal quantitative boundaries and monitoring conformance thereto.
- 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, including the pricing component.
- Employees involved in the field of credit undergo training and instruction on credit.

During 2021, adjustments were made to the credit risk management and risk appetite.
In 2021, there were no significant changes in the corporate governance structure associated with 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 and USA operations.[3] This policy is primarily based on the Bank's policy in Israel.
Each of the Bank's foreign offices has a 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 the foreign offices 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 ("problem 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 foreign offices, and credit stress scenarios).

[3] The aforesaid group-level policy shall apply to BLUSA until the completion of the merger transaction with Valley as described in the report on the transaction.

2. The **Market, Model and ERM Risks Department** is responsible for the validation of internal models for credit risk at the Bank and its subsidiaries.
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 (including housing loans), which is based, inter alia, on the characteristics of the customer's activity in the account over time.
- 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 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.

Impact of the coronavirus crisis on credit risk

Economic activity in Israel continued to grow in the fourth quarter, on the back of the vaccination rates and the availability of medications for treating symptoms and preventing severe disease. However, the sectors most hurt by the crisis are still well behind in terms of their recovery rates compared to other economic sectors.

During 2021, there was been an improvement trend in the job market, with a decline in unemployment rates.

The unemployment rate under the usual definition ("unemployed") at the end of 2021 was higher than prior to the crisis, although the January 2022 data show a decline to pre-crisis levels.
The unemployment rate under the "broad" definition (which includes not only unemployed individuals but also employees who are temporarily absent from the work force due to the coronavirus, as well as employees who do not participate in the workforce and have been terminated as of March 2020) - which has been published by the Central Bureau of Statistics since the onset of the pandemic - pointed at an improvement trajectory in 2021, featuring a decline in unemployment. In January 2022, the rate was 5.6 percent, the lowest since the onset of the pandemic.

On the back of the continuing crisis, the risk of more harm inflicted on business activity due to epidemiological reasons is still in existence, due to the decline in immunological memory and onset of new variants. However, the risk is lower compared with the onset of the crisis, due to the knowledge and experience gained in adapting the economy to activity during morbidity surges and in light of the vaccination rates, medications and decline in morbidity as aforesaid.

It should be noted that most business and private customers with deferred loans have resumed their regular payments.

The Bank continues to look into ways to support those of its customers that found themselves in temporary crisis and whom the Bank believes will successfully get through the crisis.

In this context, emphases in credit granting are continually being honed, and risk focal points and market developments are being monitored on a regular basis, while making preparations and adjusting the activity.

For more information about the effect of the coronavirus crisis, please see the "Credit Risks" chapter in the Report of the Board of Directors and Management as at December 31 2021

The loan loss income in 2021 was NIS 812 million, of which a total of NIS 486 million of the loan loss income was attributed to the specific provision and NIS 326 million - to the collective provision. This income was significantly affected by collections, by the decrease in morbidity, by the improved macro-economic parameters and by the economic expansion in 2021. The loan loss provision is an estimate based on significant judgment, which was applied during the reporting period in a changing environment.

The provision process includes three main stages, which were adapted to the circumstances of the Covid-19 crisis:

- Identifying and locating borrowers who exhibit adverse indicators, including borrowers who were hurt by the coronavirus crisis, or who are active in economic sectors that are more exposed to the adverse effects of the crisis. The Bank places significant emphasis on strict credit underwriting processes and the monitoring and follow-up activities in order to understand the development of the risks embodied in the credit portfolio, prepare in a timely manner and apply the necessary adjustments. At the same time, the Bank carefully evaluates the need to escalate risk ratings and classification of debts which may be adversely affected by the crisis.
- Recording loan loss expenses, which reflect the expected impaired debt at the individual level.
- Making and reviewing collective provisions which reflect the expected loss to the Bank on the collective level. In this context, the Bank is relying on information that is available to it, such as: volume of write-offs, risk profile of the economic sector, debt classification, risk appetite, economic conditions, etc. This process emphasizes the change in customers' risk characteristics and those of the various economic sectors as well as the economic assessments, taking into account, among other things, the unemployment and growth rates. A worsening of any of these criteria may bring about an increase in the loan loss provision, and vice versa. During 2021, there has been an improvement trend, with a decline in unemployment rates. In December 2021, 262 thousand workers (approximately 6.0 percent of the work force) meet the broad definition of unemployment. This, versus 537 thousand workers (approximately 12.9 percent of the work force) in December 2020. The decline in the substantial unemployment rates during 2021 occurred on the back of the economy's recovery and removal of most coronavirus restrictions, a development which contributed to a significant increase in demand for employees. The Israeli economy grew by 8.1 percent in 2021. This represents fast growth, following a 2.2 percent contraction of the GDP in 2020. The significant rapid growth reflects a substantial rise in private consumption. Therefore, the rapid growth coupled with the decline in unemployment rate, which reflect the adjustment of most economic sectors to a new routine during the coronavirus period, have reduced the economy's vulnerability to the scope of morbidity in relation to previous quarters.
- In the provision quantifying process, several scenarios were calculated which represent circumstances that management believes are within a reasonable range, which were attributed weights for the purpose of obtaining the best estimate. It should be emphasized that due to the uncertainty, which has declined but still envelopes the current circumstances and, as a result, the lesser but still existing difficulty in identifying, recognizing and measuring loan losses - the loan loss provision estimate under the crisis is the result of assumptions and assessments which appear more encouraging at this point. At the same time, the effects of the measures and aid programs approved at the beginning of the crisis are dwindling, and the Bank does not expect they will have any significant adverse effect on credit risk, following positive indications regarding the population segments which enjoyed these aid programs - both among households and business borrowers, such as: the high rates of borrowers who resumed their regular payments following the deferment period, the low rate of borrowers in arrears out of the borrowers who resumed payments, the high rate of borrowers given state-backed loans who have begun to repay them, the low rate of borrowers in arrears out of this population, etc.

Due to the continuous nature of the crisis, the Bank continued to examine, during the fourth quarter of 2021, the key criteria for the provision-making process, and made the required revision thereto; in the process, it took into account the developments outlined above as well as the assessments whereby the risk of additional harm to the business activity as a result of the epidemiological aspect is lower the before; this is due to the high vaccination rates among Israel's population and the economy's adjustments to activity made during surges in morbidity. Additional changes in management's assessments, estimates and forecasts may impact the loan loss provision.

Assessments and economic- and other forecasts regarding the duration and severity of the crisis may change and are therefore subject to uncertainty. Therefore, it is difficult to assess or predict how customers' status and behavior will change.

It is difficult to assess how potential changes in any variable may affect the loan loss provision in general, since management takes into account a wide range of factors, measures and indicators in its estimates. It is possible that changes in these variables may not occur at the same rate, or will be inconsistent in terms of their effect of the various components of the loan portfolio. Moreover, future changes in the loan loss provision estimate may stem from different and varied factors, such as changes in the outstanding loan balances, industry credit mix, borrower quality, write-offs, accounting classifications, etc.

Despite the aforesaid, in order to illustrate the sensitivity of the provision and to examine the alternative effect of other assumptions and estimates, the Bank used the various scenarios underlying the estimate and compared them to the outstanding provision that was recognized at the balance sheet date and calculated based on the allocation of weights to these scenarios. In this context, the Bank assumed that - under an optimistic scenario - the scope of customers exposed to the crisis whose financial condition will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be lower than the estimates in the underlying scenario; the scenario is based on a series of different variables as outlined above, circumstances which may be accompanied by a lower unemployment rate than the one in the underlying assessments, as well as a higher growth rate than in the underlying assessments. On the other hand, the Bank assumed that alternatively - under a pessimistic scenario - the scope of customers exposed to the crisis whose financial position will deteriorate such that it will cause their classification to worsen and/or that the provision made in respect thereof shall be higher than the estimates in the underlying scenario - based on several factors, as described above - circumstances which may be accompanied by an unemployment rate according to its broad definition, which may reacha one-digit range on an annual average, which is higher than the underlying scenario, accompanied by a lower GDP growth rate than the one used in the underlying assessments. The Bank compared the results of the two alternative scenarios described above to the outstanding loan loss provision recognized in its financial statements as at December 31 2021. Without taking into account the effects of offsetting or correlation, the effect of the aforesaid, hypothetically, may cause a decrease or increase of NIS 0.1 or 0.2 billion, respectively, in the loan loss provision, depending on the scenario assumptions.

This analysis is subjective and is not intended, nor purports, to estimate future changes in the loan loss provision, for many reasons, including:

- The effects of such changes may not be linear.
- There are interactions, which may be material, between the changes.
- The crisis has rapidly affected numerous areas, with force and patterns that are unprecedented in recent history; the uncertainty therefore overshadows any estimation process.
- Significant changes in the severity and duration of the crisis, the epidemiological situation, the emergence of new variants, the effects of government aid, developments on the health level and speed of recovery may significantly alter the provision estimates, regardless of the sensitivities outlined above.
- The existence of financial harm and the customer's ability to cope therewith depend on numerous factors, which are not clear enough at this stage, including: the speed of going "back to normal", the success of the vaccination effort over time, medical treatment of the variants, the ability of businesses and households to handle and adapt - by changing activity and behavior patterns, government aid, measures taken by the Bank of Israel, etc.

The Bank believes that the current estimate is adequate as at the reporting date. Since the analysis involved significant judgment, others performing similar analyses may reach different conclusions.

It is clarified that the uncertainty regarding the trajectory of the crisis's development and its ramifications for the real economy still exists, such that the provision may change - increase or decrease - in the future in accordance with the developments and due to the uncertainty, as described above.

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

In 2021, the Bank has applied the coronavirus guidance of the Bank of Israel and adopted the unified outlines published by the Bank of Israel to date regarding changes in the loan terms, especially by way of loan deferment for private individuals and business customers.

For more information, please see under "Credit Risks" in the Report of the Board of Directors and Management as at December 31 2021

The lion share of the outstanding amounts of loans approved for deferment as of the reporting date, and which are still under deferment but not classified as problem debt, is for a period of more than six months.

The Bank is monitoring all 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. This both as part of the monitoring and identification processes of customers in the Bank's ongoing tracking lists and as part of special-purpose monitoring to identify customers with a higher potential of incurring damage as a result of the crisis.

Out of all frozen outstanding mortgages as at January 31 2022, approximately 89.3 percent have resumed regular payments.

As at January 31 2022, approx. 2.0 percent of the total outstanding mortgage loan amounts are still under deferment.

For more information about changes in the terms of debts following the coronavirus crisis, please see the "Credit Risks" chapter in the Report of the Board of Directors and Management as at December 31 2021.

For more information and details regarding developments in the credit portfolio and the qualitative indicators characterizing the portfolio, please see below as well as under "Credit" in the Report of the Board of Directors and Management as at December 31 2021.

Outstanding debts in Israel[a] the covenants of which were amended as part of dealing with the coronavirus from March 1 2020 to December 31 2021, which were not classified as restructuring of problem debt following the deferment

	Outstanding loans for which payments were deferred as at the reporting date[b]				More information about outstanding loans to the public for which deferment was granted				More information about deferred debts by deferment period[b]		Debts whose deferment term has ended, as of the reporting date	
					Non-problem debts				Non-problem debts in respect of which cumulative deferral has been made			
	Out-standing loans for which payments were deferred	No. of loans[d]	Amount of payments deferred in practice	Prob-lem debts	Debts without credit perfor-mance rating	Out-stand-ing perfor-mance rated loans in arrears of 30 days or more	Non-delin-quent debts with credit perfor-mance rating	Total non-problem debts	More than 3 months and up to 6 months	More than 6 months	Outstand-ing loans to the public	Of which: in arrears of 30 days or more
	In NIS millions											
Corporations	**342**	**40**	**44**	**281**	**-**	**-**	**61**	**61**	**-**	**37**	**868**	**-**
Mid-sized businesses	**234**	**66**	**64**	**36**	**-**	**-**	**198**	**198**	**71**	**118**	**2,188**	**-**
Small- and micro-businesses	**330**	**613**	**59**	**21**	**5**	**3**	**301**	**309**	**31**	**214**	**6,065**	**47**
Private individuals - excl. housing	**48**	**536**	**13**	**1**	**3**	**-**	**44**	**47**	**2**	**2**	**1,576**	**26**
Housing loans	**2,177**	**4,679**	**256**	**51**	**1,953**	**-**	**173**	**2,126**	**70**	**1,953**	**16,306**	**410**
Total as at December 31 2021	**3,131**	**5,934**	**436**	**390[c]**	**1,961**	**3**	**777**	**2,741**	**174**	**2,324**	**27,003**	**483**
Total as at September 30 2021	3,628	6,612	493	403	2,313	3	909	3,225	149	2,765	28,500	539
Total as at June 30 2021	4,712	8,577	562	488	3,142	3	1,079	4,224	510	3,542	29,944	457
Total as at March 31 2021	6,122	15,661	537	571	3,764	14	1,773	5,551	1,286	3,980	30,229	455
Total aAs at December 31 2020	13,180	63,655	1,144	446	6,300	162	6,272	12,734	4,944	6,659	24,949	224

(a) Debts which were deferred in foreign subsidiaries were done so according to local outlines and their outstanding amount is immaterial to the consolidated financial statements.
(b) 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.
(c) Of which: classified as non-accrual impaired debts in the amount of NIS 32 million.
(d) The number of loans is presented separately.

State-backed loans

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 coronavirus crisis. The loan covenants were determined by the Ministry of Finance and are uniform for all types of borrowers.

In February 2021, a state-backed outline for granting new loans with an average duration of up to 10 years was approved.
In May 2021, a program for extending the average duration of existing state-backed loans to a period of no more than 10 years from the original loan date, was approved, subject to certain terms and conditions.
In existing state-backed loans, the grace period is extended by an additional period of up to 12 months and a total of no more than 24 months from the original loan date, subject to certain terms and conditions. During the additional grace period on the principal, the interest will be paid by the customer.

In addition, in February 2021, the maximum loan amount is the same in the General Track and High-Risk Track. In all of the tracks, a business will be allowed to take a loan of up to 40 percent of its annual turnover, at a maximum amount of NIS 20 million.
The maximum loan amount eligibility is calculated according to the customer's reported turnover as of the 2019 or 2020 financial statements, at the customer's discretion.

Due to the continuation of the coronavirus pandemic, the State and the Bank decided to extend the activity of the coronavirus fund (General Track and High-Risk Track) for a period of two additional months only, until February 28 2022.

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.

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

	Outstanding debt as at December 31	
	2021	2020
Customer classification	In NIS millions	
Small- and micro-businesses	**3,636**	3,807
Mid-sized businesses	**1,190**	1,595
Corporations	**307**	469
Total	**5,133**	5,871

Comments:
1. Customers are classified according to regulatory operating segments.
2. As of January 31 2022, the Bank extended loans to businesses totaling NIS 6.7 billion through the state-backed Business Loan Fund. Additionally, the Bank approved NIS 0.3 billion in loans which have yet to be withdrawn by customers.

Credit Quality of Assets (CR1)

		A	B	C	D
		December 31 2021			
		Gross balances[a]			
		Impaired 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	**3,890**	**360,763**	**(4,515)**	**360,138**
2	Bonds	**-**	**69,970**	**-**	**69,970**
3	Off-balance sheet exposures	**171**	**149,528**	**(469)**	**149,230**
4	Total	**4,061**	**580,261**	**(4,984)**	**579,338**

		A	B	C	D
		December 31 2020			
		Gross balances[a]			
		Impaired 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	4,848	306,820	(5,293)	306,375
2	Bonds	-	74,668	-	74,668
3	Off-balance sheet exposures	237	135,195	(422)	135,010
4	Total	5,085	516,683	(5,715)	516,053

(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 Stock of Defaulted Loans and Debt Securities (CR2)

For more information regarding balance and movement in impaired debts, please see the section entitled “Credit Risks" in the Report of the Board of Directors and Management and in Note 30 to the Financial Statements.

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

The Bank implements the Reporting to the Public Directives on impaired debts, credit risk, and provision for loan 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.

Impaired debt

Debt is classified as impaired 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 impaired 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. Additionally, impaired debt is also considered as a debt whose terms were changed due to restructuring of problem debt, unless a minimum loan loss provision was made in respect thereof before and after the restructuring according to the extent of arrears method.

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

The following changes will come into force as from January 1 2022, pursuant to the Bank of Israel's circular on expected credit losses (No. 2634-06 of November 29 2021):

- The existing definitions of impaired debts and impaired credit risk shall be replaced with definitions of non-accrual debts and non-accrual credit risk.
- A debt whose terms were changed in the restructuring of a problem debt, such that it is reasonably certain that the debt will be repaid in accordance with its new conditions, is not required to be classified as a debt that does not accrue interest income.
- Changes in the manner of calculating/making the minimum provision according to the extent of arrears in housing loans.

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 impaired, 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 impaired

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 impaired:

- 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.
- Housing loans for which the provision is calculated according to the extent of arrears.
- Credit examined on a specific basis which is well-secured and under collection proceedings.

Restructured problem debt

A formal restructuring of a debt is considered a problem 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 a problem 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.

Despite the aforesaid, in light of the outbreak of the coronavirus, and in accordance with specific guidelines of the Bank of Israel designed to encourage banks to help borrowers cope with the adverse implications of the crisis and defer payments without automatically classifying debts as problem debt under restructuring, the Bank made the needed adjustments.

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

Following are the differences between the definition of "arrears" or “delinquency” 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 accruing interest, will be considered an “impaired” debt for accounting purposes, as long as it has not undergone "subsequent restructuring”, while for the purpose of measuring capital adequacy, it will not be considered a “loan in arrears” (i.e., and be treated as "good" debt);
3. Off-balance sheet credit is classified as problem 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 “problem debt”. On the other hand, off-balance sheet credit exposures will be classified as delinquent 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.

Loan loss provision

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

- Specific provision - is assessed for each debt whose contractual balance (without deducting: accounting write-offs not involving a legal waiver, unrecognized interest, provisions for loan losses and collaterals) is NIS 1 million or more and any other debt identified by the Bank for specific assessment purposes. In some of the consolidated subsidiaries, assessment is also carried out for lower amounts.
- Collective provision - for other debts that do not meet the abovementioned criteria for specific assessment with the exception of housing loans, which are treated according to the extent of arrears method.

For more information, please see Note 1G to the financial statements as at December 31 2021.

Credit Risk by Economic Sector

	December 31 2021									
	Total credit risk[a]			Debts[b] and off-balance sheet credit risk (net of derivatives)[c]						
								Loan losses[d]		
					[1]Of which:					
	Total	Credit performance rating[e]	Problem[f]	Total[1]	Debts[b]	Problem[f]	Impaired	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**	**37**	**(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**	**152**	**(1)**	**17**	**(417)**
Construction & real estate - Construction[g]	**78,706**	**78,157**	**349**	**78,600**	**41,225**	**349**	**96**	**170**	**(28)**	**(682)**
Construction & real estate - Real estate activity	**40,768**	**40,028**	**321**	**40,499**	**34,917**	**321**	**223**	**(2)**	**(66)**	**(468)**
Power and water supply	**8,950**	**8,900**	**50**	**8,730**	**4,861**	**50**	**27**	**(12)**	**-**	**(39)**
Commerce	**32,951**	**32,496**	**394**	**32,497**	**25,841**	**394**	**167**	**(166)**	**14**	**(297)**
Hotels, accommodation and dining services	**4,233**	**3,817**	**377**	**4,220**	**3,674**	**377**	**264**	**(46)**	**(17)**	**(168)**
Transportation and storage	**7,859**	**7,298**	**519**	**7,835**	**6,355**	**519**	**190**	**(76)**	**21**	**(135)**
Information and communication	**5,094**	**4,917**	**155**	**4,967**	**3,160**	**155**	**143**	**(148)**	**(112)**	**(118)**
Financial services	**44,925**	**44,889**	**33**	**31,498**	**23,534**	**33**	**12**	**29**	**(8)**	**(268)**
Business and other services	**12,244**	**11,912**	**290**	**12,215**	**8,807**	**290**	**135**	**(195)**	**(20)**	**(223)**
Public and community services	**10,356**	**10,224**	**125**	**10,342**	**8,642**	**125**	**35**	**(100)**	**(2)**	**(89)**
Commercial - total[h]	**276,534**	**272,418**	**3,172**	**261,161**	**180,199**	**3,172**	**1,481**	**(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**	**370**	**(44)**	**20**	**(727)**
Total loans to the public - activity in Israel	**423,990**	**414,700**	**4,454**	**408,605**	**311,456**	**4,454**	**1,871**	**(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	**458,844**	**449,554**	**4,454**	**410,002**	**312,759**	**4,454**	**1,871**	**(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 312,759, 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) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

(h) Commercial credit includes an outstanding amount of NIS 2,519 million extended to purchasing groups currently in the process of construction.

	December 31 2021									
	Total credit risk[(a)]			Debts[(b)] and off-balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d)]		
					[1]Of which:					
	Total	Credit perfor-mance rating[(e)]	Problem[(f)]	Total[1]	Debts[(b)]	Problem[(f)]	Impaired	Expenses (income) in respect of loan losses	Net account-ing write-offs	Balance of loan loss provision
	In NIS millions									
In respect of borrower activity abroad										
Commercial - Public										
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	**16,972**	**15,817**	**609**	**16,834**	**14,413**	**609**	**247**	**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)**
Commercial - total	**74,778**	**70,260**	**2,882**	**44,363**	**35,509**	**2,882**	**1,248**	**(55)**	**96**	**(819)**
Individuals - Housing loans	**90**	**89**	**-**	**90**	**90**	**-**	**-**	**(4)**	**(3)**	**-**
Private individuals - other	**357**	**355**	**1**	**357**	**336**	**1**	**1**	**(1)**	**-**	**-**
Total loans to the public - overseas activity	**75,225**	**70,704**	**2,883**	**44,810**	**35,935**	**2,883**	**1,249**	**(60)**	**93**	**(819)**
Foreign banks	**36,796**	**36,796**	**-**	**17,117**	**15,224**	**-**	**-**	**-**	**-**	**(2)**
Foreign governments	**27,471**	**27,471**	**-**	**959**	**735**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**139,492**	**134,971**	**2,883**	**62,886**	**51,894**	**2,883**	**1,249**	**(60)**	**93**	**(821)**
Total	**598,336**	**584,525**	**7,337**	**472,888**	**364,653**	**7,337**	**3,120**	**(812)**	**(90)**	**(4,984)**

(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 51,894, 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) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.

	December 31 2020									
	Total credit risk[(a)]			Debts[(b)] and off-balance sheet credit risk (net of derivatives)[(c)]						
								Loan losses[(d)]		
					[1]Of which:					
	Total	Credit performance rating[(e)]	Problem[(f)]	Total[1]	Debts[(b)]	Problem[(f)]	Impaired	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	2,514	2,360	116	2,512	2,137	116	40	4	(12)	(55)
Mining and quarrying	506	504	2	478	234	2	-	-	-	(1)
Manufacturing	26,086	25,216	511	25,678	16,279	511	281	147	105	(454)
Construction & real estate - Construction[(g)]	62,099	61,643	350	62,026	28,846	350	137	145	25	(479)
Construction & real estate - Real estate activity	33,769	32,926	525	33,654	29,440	525	332	100	(32)	(405)
Power and water supply	6,523	6,436	87	6,343	3,119	87	31	3	(2)	(52)
Commerce	31,491	30,407	1,000	31,177	24,765	1,000	467	157	35	(471)
Hotels, accommodation and dining services	4,410	3,829	366	4,396	3,936	366	265	147	20	(189)
Transportation and storage	6,652	5,896	689	6,618	5,597	689	226	180	32	(229)
Information and communication	4,724	4,433	224	4,417	2,846	224	208	137	10	(152)
Financial services	33,751	33,739	12	23,645	19,352	12	4	51	(13)	(233)
Business and other services	11,632	11,047	339	11,618	7,871	339	139	248	46	(395)
Public and community services	10,581	10,417	130	10,561	8,577	130	32	109	18	(188)
Commercial - total[(h)]	234,738	228,853	4,351	223,123	152,999	4,351	2,162	1,428	232	(3,303)
Individuals - Housing loans	93,455	87,028	748	93,455	90,228	748	26	174	6	(635)
Private individuals - other	43,115	40,745	654	43,107	25,796	654	336	271	136	(790)
Total loans to the public - activity in Israel	371,308	356,626	5,753	359,685	269,023	5,753	2,524	1,873	374	(4,728)
Banks in Israel	3,863	3,863	-	1,640	1,631	-	-	-	-	(1)
Government of Israel	42,646	42,646	-	9	9	-	-	-	-	-
Total activity in Israel	417,817	403,135	5,753	361,334	270,663	5,753	2,524	1,873	374	(4,729)

(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 270,663, 42,532, 753, 4,575 and 99,294 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) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.

(g) Including housing loans extended to certain purchasing groups currently in the process of construction.

(h) Commercial credit includes an outstanding amount of NIS 2,707 million extended to purchasing groups currently in the process of construction.

	December 31 2020									
	Total credit risk[a]			Debts[b] and off-balance sheet credit risk (net of derivatives)[c]						
								Loan losses[d]		
					[1]Of which:					
	Total	Credit perfor-mance rating[e]	Problem[f]	Total[1]	Debts[b]	Problem[f]	Impaired	Expenses (income) in respect of loan losses	Net account-ing write-offs	Balance of loan loss provision
	In NIS millions									
In respect of borrower activity abroad										
Commercial - Public										
Agriculture	190	189	-	188	137	-	-	-	-	(2)
Mining and quarrying	654	654	-	-	-	-	-	-	-	-
Manufacturing	8,451	8,037	103	6,415	4,184	103	99	85	31	(89)
Construction & real estate	13,887	12,438	922	13,794	12,204	922	380	110	59	(303)
Power and water supply	303	303	-	69	30	-	-	-	-	-
Commerce	4,009	3,792	176	3,492	2,759	176	1	(3)	(2)	(34)
Hotels, accommodation and dining services	2,767	424	1,758	2,751	2,628	1,758	1,027	371	1	(383)
Transportation and storage	533	382	70	426	410	70	-	(1)	(1)	(5)
Information and communication	1,854	1,826	28	1,121	636	28	28	2	(9)	(25)
Financial services	26,660	26,559	11	5,110	3,952	11	11	16	-	(32)
Business and other services	4,320	3,482	371	4,288	3,672	371	144	97	76	(95)
Public and community services	491	474	17	460	447	17	17	-	-	(13)
Commercial - total	64,119	58,560	3,456	38,114	31,059	3,456	1,707	677	155	(981)
Individuals - Housing loans	161	128	24	161	161	24	24	1	-	(1)
Private individuals - other	413	412	1	413	388	1	1	-	-	(2)
Total loans to the public - overseas activity	64,693	59,100	3,481	38,688	31,608	3,481	1,732	678	155	(984)
Foreign banks	32,773	32,773	-	10,127	8,774	-	-	1	-	(2)
Foreign governments	20,964	20,949	15	848	623	15	15	-	-	-
Total activity abroad	118,430	112,822	3,496	49,663	41,005	3,496	1,747	679	155	(986)
Total	536,247	515,957	9,249	410,997	311,668	9,249	4,271	2,552	529	(5,715)

(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 41,005, 45,369, 2,266, 10,680 and 19,110 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) Balance-sheet and off-balance sheet credit risk that is impaired, substandard or special-mention, including housing loans for which there is a provision according to the extent of arrears and housing loans for which there is no provision based on the extent of arrears which are in arrears of 90 days or more.

Credit Exposures by Remaining Loan Term[a]

	December 31 2021				
	Up to one year	From one and up to five years	More than five years	Without loan term	Total credit exposure
	In NIS millions				
Balance-sheet credit exposure:					
Commercial	**120,127**	**72,057**	**45,592**	**2,167**	**239,943**
Individuals - Housing loans	**16,805**	**32,858**	**102,486**	**84**	**152,233**
Private individuals - other	**12,156**	**15,289**	**2,678**	**592**	**30,715**
Assets in respect of derivatives	**5,141**	**1,612**	**817**	**-**	**7,570**
Total - Public	**154,229**	**121,816**	**151,573**	**2,843**	**430,461**
Banks and governments[b]	**225,506**	**24,571**	**19,068**	**-**	**269,145**
Total balance-sheet credit exposure	**379,735**	**146,387**	**170,641**	**2,843**	**699,606**
Of which: Bonds	**29,085**	**26,581**	**35,933**	**-**	**91,599**
Total off balance-sheet credit risk exposure	**67,254**	**77,370**	**5,075**	**-**	**149,699**

	December 31 2020				
	Up to one year	From one and up to five years	More than five years	Without loan term	Total credit exposure
	In NIS millions				
Balance-sheet credit exposure:					
Commercial	109,450	63,758	39,757	3,255	216,220
Individuals - Housing loans	4,227	30,550	87,517	97	122,391
Private individuals - other	11,849	14,275	1,871	585	28,580
Assets in respect of derivatives	5,778	3,094	990	-	9,862
Total - Public	131,304	111,677	130,135	3,937	377,053
Banks and governments[b]	161,999	36,522	18,859	-	217,380
Total balance-sheet credit exposure	293,303	148,199	148,994	3,937	594,433
Of which: Bonds	25,246	36,538	34,074	-	95,858
Total off balance-sheet credit risk exposure	69,673	61,435	4,324	-	135,432

(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[(a)]

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

Country	1	2	3	4	5	4-5=6
	December 31 2021					
	Balance sheet exposure[(b)]					
	Cross-border balance sheet exposure			Balance sheet exposure of the banking corporation's foreign offices to the local residents of that foreign country		
	To governments	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities
	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	**396**	**132**	**803**	**-**	**-**	**-**
Total exposures to GIPS countries	**394**	**163**	**51**	**-**	**-**	**-**

Country	1	2	3	4	5	4-5=6
	December 31 2020					
	Balance sheet exposure[(b)]					
	Cross-border balance sheet exposure			Balance sheet exposure of the banking corporation's foreign offices to the local residents of that foreign country		
	To governments	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities
	In NIS millions					
United States	14,897	2,598	9,816	22,468	20,479	1,989
UK	210	8,499	4,877	5,353	1,261	4,092
France	1,641	1,663	114	-	-	-
Switzerland	-	797	253	22	22	-
Germany	2,665	854	146	-	-	-
Other	6,557	7,906	7,627	-	-	-
Total exposure to foreign countries	25,970	22,317	22,833	27,843	21,762	6,081
Total exposures to LDC countries[(e)]	380	172	516	-	-	-
Total exposures to GIPS countries[(d)]	663	194	60	-	-	-

Please see comments below.

6+3+2+1=7	8	9	10	11	12	13
			Off-balance sheet exposure(b)(c)		Cross-border balance sheet exposure(b)	
Total balance sheet exposure						
	Problem balance-sheet credit risk	Impaired 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**

6+3+2+1=7	8	9	10	11	12	13
			Off-balance sheet exposure(b)(c)		Cross-border balance sheet exposure(b)	
Total balance sheet exposure						
	Problem balance-sheet credit risk	Impaired 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
29,300	1,108	469	5,774	1	12,860	14,451
17,678	618	156	8,049	-	8,323	5,263
3,418	10	8	1,966	-	2,519	899
1,050	-	-	1,915	-	643	407
3,665	-	-	1,613	-	1,670	1,995
22,090	51	3	2,616	1	12,958	9,132
77,201	1,787	636	21,933	2	38,973	32,147
1,068	1	-	892	1	403	665
917	47	-	276	-	468	449

Comments:

(a) Exposure to foreign countries is presented based on the final risk.

(b) Balance-sheet and off-balance-sheet credit risk, problem commercial credit risk and impaired debts are stated before the effect of the provision for loan losses and the effect of collateral that is deductible for the purpose of specific and general indebtedness and before the effect of netting in respect of derivatives.

(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations, before the effect of netting in respect of derivatives.

(d) "Exposure to the GIPS countries" includes: Greece, Italy, Portugal and Spain.

(e) "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.

(f) 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 amount applies to 14 countries (as at December 2020 - 16 countries). As of March 2021, the measurement does not include exposure to investment-grade countries, unless they were individually identified as having liquidity issues which may have a material effect on their solvency.

Part B - As at December 31 2021 and December 31 2020, there is no aggregate balance sheet exposure to foreign countries, the total exposure to each of which ranges between 0.75 percent and 1 percent of total consolidated assets or between 15 percent and 20 percent of capital, whichever the lower.

For more information regarding movement in the loan loss provision, please see Notes 13 and 30 to the Financial Statements as at December 31 2021.

For more information regarding aging of delinquent credit exposures, please see Note 30 to the financial statements as at December 31 2021.

For more information regarding restructured credit exposures, please see Note 30 to the Financial Statements and the "Credit Risks" section in the Report of the Board of Directors and Management as at December 31 2021.

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 its collateral policy for all economic sectors, the Bank has set principles and rules regarding collateral types and amounts. 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 2021						
		Unsecured	Secured[(c)]					
					Of which: collateral		Of which: financial guarantees	
		Total assets[(a)]	Total assets[(a)]	Of which: secured amount[(b)]	Total assets[(a)]	Of which: secured amount[(b)]	Total assets[(a)]	Of which: secured amount[(b)]
		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**
4	Of which: impaired or in arrears of 90 days or more	**3,647**	**243**	**34**	**149**	**15**	**94**	**19**

		A	A1	A2	B	C	D	E
		December 31 2020						
		Unsecured	Secured[(c)]					
					Of which: collateral		Of which: financial guarantees	
		Total assets[(a)]	Total assets[(a)]	Of which: secured amount[(b)]	Total assets[(a)]	Of which: secured amount[(b)]	Total assets[(a)]	Of which: secured amount[(b)]
		In NIS millions						
1	Debts, excluding bonds	270,412	35,963	13,062	25,637	8,883	10,326	4,179
2	Bonds	68,642	6,026	6,026	-	-	6,026	6,026
3	Total	339,054	41,989	19,088	25,637	8,883	16,352	10,205
4	Of which: impaired or in arrears of 90 days or more	4,484	364	41	242	23	122	18

(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)

		A	B	C	D	E	F
		December 31 2021					
		Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Asset classes	Balance-sheet amount(b)	Off balance-sheet amount(c)	Balance-sheet amount(b)	Off balance-sheet amount(c)	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(d)		**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	B	C	D	E	F
		December 31 2020					
		Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
	Asset classes	Balance-sheet amount(b)	Off balance-sheet amount(b)	Balance sheet amount(c)	Off balance-sheet amount(c)	RWA	RWA density
		In NIS millions					
1	Sovereignties, their central banks and national monetary authority	181,047	257	188,667	144	3,286	1.74%
2	Public sector entities (PSEs) other than a central government	16,475	1,008	12,289	470	3,879	30.40%
3	Banks, including multilateral development banks (MDBs)	21,395	2,080	17,236	1,096	4,022	21.94%
4	Securities firms	1,894	-	1,580	-	316	20.00%
5	Corporations	97,247	44,674	92,343	27,201	109,676	91.75%
6	Retail exposures to individuals	33,701	21,459	33,275	3,243	27,388	75.00%
7	Loans to small businesses	16,079	5,398	14,288	1,219	11,631	75.00%
8	Secured by a residential property	88,974	10,305	88,973	1,400	49,154	54.39%
9	Secured by a commercial property	50,167	50,946	49,642	8,181	57,823	100.00%
10	Delinquent loans(d)		3,939		3,742	4,776	127.63%
11	Other assets	14,331	-	14,331	-	11,463	79.99%
12	Total	525,248	136,127	516,366	42,954	283,414	50.67%

(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 percent 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) Balance sheets and off-balance sheets balances were merged due to immateriality.

Standardized Approach – Exposures by Asset Classes and Risk Weights[a][b] (CR5)

		A	C	D	E	F		G	H	I	M
		December 31 2021									
	Asset classes / risk weight	0%	2%	20%	35%	50%	60%	75%	100%	150%	Total credit exposures amount (after CCF and after CRM)
		In NIS millions									
1	Sovereignties, their central banks and national monetary authority	227,986	-	14,977	-	624	-	-	149	-	243,736
2	Public sector entities (PSEs) other than a central government	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	C	D	E	F		G	H	I	M
		December 31 2020									
	Asset classes / risk weight	0%	2%	20%	35%	50%	60%	75%	100%	150%	Total credit exposures amount (after CCF and after CRM)
		In NIS millions									
1	Sovereignties, their central banks and national monetary authority	174,323	-	13,438	-	938	-	-	78	34	188,811
2	Public sector entities (PSEs) other than a central government	1,619	-	5,663	-	5,462	-	-	15	-	12,759
3	Banks, including multilateral development banks (MDBs)	3,197	-	12,464	-	2,283	-	-	388	-	18,332
4	Securities firms	-	-	1,580	-	-	-	-	-	-	1,580
5	Corporations	-	-	11,784	-	1,201	-	-	106,240	319	119,544
6	Retail exposures to individuals	-	-	-	-	-	-	36,518	-	-	36,518
7	Loans to small businesses	-	-	-	-	-	-	15,507	-	-	15,507
8	Secured by a residential property	-	-	-	28,415	22,730	14,117	22,950	2,161	-	90,373
9	Secured by a commercial property	-	-	-	-	-	-	-	57,823	-	57,823
10	Delinquent loans	-	-	-	-	-	-	-	1,673	2,069	3,742
11	Other assets	2,671	-	731	-	-	-	-	10,153	776	14,331
11A	Of which: for shares	-	-	-	-	-	-	-	4,789	776	5,565
12	Total	181,810	-	45,660	28,415	32,614	14,117	74,975	178,531	3,198	559,320

(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 percent 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

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, according to the adequate risk level and 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.

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.

According to a decision by the Bank's management, the said insurance policy for the said Sale Law guarantees was not renewed for new projects which were launched from January 12 2021.

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 insure the Bank if an insured loan for land is not duly repaid.

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).

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[4] 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 percent to 22 percent of the loan portfolio (not including national infrastructure)
- The exposure restriction to the real estate and construction industry (including national infrastructure) was extended from 24 percent to 26 percent 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.

[4] Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis dated January 10 2021.

- 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.

During the past year, the construction and real estate sector grew, causing higher demand for business credit from the banking system and non-banking financing entities.

In the course of 2021, Leumi was proactively expanded the real estate portfolio, focusing on the housing segment and selected financially resilient customers.
Real estate is defined by the Bank as being relatively less risky than other economic sectors. This is supported by the macroeconomic forecasts, financing method, stringent supervision and backing by property collateral.

Total problem credit risk (special mention, substandard or impaired) in the construction and real estate sectors in Israel is on the decline, including its share of the Bank's credit risk portfolio in the construction and real estate sectors in Israel. In addition, the total problem credit in these sectors in Israel (special mention, substandard or impaired) out of overall problem credit risk in Israel (special mention, substandard or impaired) is low and lower than its share in the total credit portfolio.
In light of the growing competition, some of the transactions carried out in the past year followed relatively lenient parameters compared to similar transactions carried out in the past. It is noted that the real estate transactions are approved through a stringent underwriting process, using adequate protections and seeking to price the risk adequately.
The increase in financing activity in the construction and real estate industries brought about growth in the real estate credit portfolio at Leumi, and 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 and is explained, in some cases, by the increase in land prices in high-demand areas.

- According to the guidance of the Bank of Israel to the banking system, the Bank established criteria for high-risk transactions in the construction and real estate industry, which are monitored on a quarterly basis. It should be noted that at this stage, these transactions do not have a material effect on the quality of the Bank's construction and real estate credit portfolio.

- The Bank examined its collective provision calculation in real estate and adjusted it in order to take into account the quick increase in the loan portfolio and certain reliefs in the underwriting terms and conditions.

As part of managing the credit risk in respect of the construction and real estate segment, the Bank continues to follow and monitor the portfolio in accordance with the regulatory restrictions, credit policy and characteristics of the segment.

As of December 31 2021, the Bank complies with the statutory regulatory and internal restrictions, which are in line with the Bank's assessment of the risk embodied in the various sub-sectors. Nevertheless, due to the growth in the sector in the reporting period, the Bank is working on implementing a plan to reduce the concentration ratio in the sector.

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

Impact of the coronavirus crisis

Two years after the onset of the crisis, the pace of completed residential construction has yet to return to its pre-crisis levels. This is mainly due to the shortage of manpower. However, it may be said that the housing construction industry sustained less harm than other economic sectors.
During the crisis, the industry was deemed vital and government reliefs were granted to enable its continuation even during lockdown (including permits to hire foreign workers).

The negative effect of the crisis on the demand in the industry was mainly short-term, due to the uncertainty among apartment buyers and the effect of the lockdown on developers' ability to sell apartments at the beginning of the crisis, which created unusual volatility.

However, the relatively strong demand, stemming from the population growth, in addition to an ongoing shortage of residential units, mitigated the harm to the industry's activity, which - and after the first months of the crisis - even enjoyed a significant rise in demand.
The number of finished apartments continues to be lower than the ongoing demand, supporting continued pressure on price increases in the housing market.

During the lockdowns, mid-sized and large shopping centers sustained significant decline in income. Between lockdowns, and particularly since the end of the third wave, shopping centers are seeing increased activity, since Israelis are less inclined to travel abroad. Commercial centers prepared for online sales, which partially offset the effect of the restrictions. Moreover, a partial opening of essential stores - mainly food and drug stores as well as spaces rented out to clinics and other services - enabled owners to collect some rent despite the restrictions.

The decline in revenues varies according to the type of property, with the most significant impact being on shopping centers that were closed due to lockdown, given the concern for the consumers' health.

Looking forward, once the economy resumes full activity - and provided no significant restrictions are imposed due to morbidity rates that would delay the economy's recovery from the crisis - the assessment is that these centers will continue to recover, albeit at a slow pace, partly in light of the e-commerce trends, on the back of a significant expected increase in the supply of office space in the coming years.

The office market showed relative robustness during the crisis, sustaining moderate damage, compared to past crises, particularly in Tel Aviv. In the short-term, the impact was mainly on offices located in older properties that are let out to small businesses, which were hurt by the crisis.

The moderate harm - which was mainly recorded in Tel Aviv - is affected by the high-tech industry, which led the demand for office space, with rapid increases in income and the number of employees; however, recovery in other office industries (such as business services, insurance and finance) is slower; accordingly, in areas which are not high-tech oriented, operational indicators have yet to recover to pre-coronavirus levels.

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

	December 31		Change	
	2021	2020		
	In NIS millions			In %
Balance-sheet credit risk	**90,905**	70,646	20,259	28.7
Guarantees for apartment buyers[(a)]	**7,669**	5,181	2,488	48.0
Other off balance sheet credit risk[(a)]	**37,872**	33,928	3,944	11.6
Total credit risk	**136,446**	109,755	26,691	24.3

(a) In credit risk terms.

For more information about this segment, please see under “Credit Risks” in the Report of the Board of Directors and Management.

Following are the details on credit risk in the real estate and construction sector in Israel, according to the status of the property - the Bank

	December 31	
	2021	2020
	Total credit risk[(a)]	
	In NIS millions	
Secured by a property in Israel		
Real estate properties under construction:		
Undeveloped land	**21,758**	12,576
Real estate under construction[(b)]	**37,794**	31,126
Finished real estate properties	**36,173**	31,890
Total credit secured by real estate properties in Israel	**95,725**	75,592
Not secured by real estate collateral in Israel	**23,319**	19,932
Overall credit risk for construction and real estate in Israel	**119,044**	95,524

(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) On December 31 2021, the composition of residential projects under construction is: absorption capacity of 0-29: NIS 874 million, absorption capacity of 30-99: NIS 13,574 million, absorption capacity of +100: NIS 7,077 million, project starts - NIS 4,483 million. 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.

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

	December 31	
	2021	2020
	Total credit risk[(a)]	
	In NIS millions	
Housing	**51,195**	38,250
Office space	**17,249**	13,750
Manufacturing	**4,691**	3,753
Commerce and services	**22,590**	19,839
Total credit secured by real estate properties in Israel	**95,725**	75,592

(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		
	2021	2020	
	In NIS millions		Change in %
Credit risk with credit performance rating			
Non-problem credit risk	**134,002**	107,007	25.2
Credit risk not in credit performance rating			
Non-problem	**1,165**	951	22.5
Problem unimpaired	**713**	948	(24.8)
Impaired	**566**	849	(33.3)
Total credit risk not in credit performance rating	**2,444**	2,748	(11.1)
Total	**136,446**	109,755	24.3

Housing Loan Portfolio Risks

Credit risk developments

Economic developments in Israel in recent years (a low interest environment, results of the affordable housing plans, and an increase in housing prices) have led to a significant increase in housing credit provision in Israel, both for housing and investment purposes.
The housing loan portfolio is monitored and the trends in its characteristics and risk centers analyzed on a regular basis, The Bank also extends individual housing loans to members of housing purchase groups.

The Bank adheres to a balanced underwriting policy that takes into account 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.
Extending loans to members of housing purchase groups answers market demand by private organizations, historical landowners, etc. From a risk standpoint, the loans are extended to various, geographically diversified populations, following close scrutiny of each borrower's capacity to repay the loan.

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:

First stage -

- 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. In addition, a grace track is given to any customer experiencing cash flow issues, according to the Bank's policy.

Second stage - collection -

- "Soft collection" - a call center which contacts customers experiencing repayment difficulties once 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

During 2021, housing loan performance in Israel increased year over year, due to increased demand for housing loans in Israel, both by homeowners and investors.

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis.

The unemployment rate may have an adverse effect of the Bank's housing loans portfolio.

On March 15 2020, the Bank of Israel published a temporary order comprising several regulatory reliefs including: lifting the restriction on all-purpose loans of households secured by property. The Bank adopted the relief in order to help its customers, after becoming convinced that these customers will be able to overcome the crisis. This temporary order allows to increase the LTV ratio for all-purpose loans from 50 percent to 70 percent.
On August 9 2021, the Bank of Israel published a revision to the Banking Supervision Department's guidance on housing loans, including its decision not to extend this easement, which expired on September 30 2021.

On December 27 2020, the Bank of Israel published a revised Proper Conduct of Banking Business Directive No. 329, which revokes the prime interest rate restriction (according to which the prime portion of the loan shall not constitute more than one third of the total loan), leaving in place the restriction according to which the ratio between the variable interest portion of a housing loan and the total loan amount shall not exceed 66.66 percent. The directive became effective on January 17 2021 for new housing loans and on February 28 2021 - for refinancing housing loans.

On October 6, 2021, the Bank of Israel published a revised FAQ - "Limitations on Issuing Housing Loans", which became effective immediately.
According to the revised directive, a banking corporation may not grant an additional loan to a borrower intended to serve as a down payment for a home. This applies both to consumer loans and to loans guaranteed by another apartment. Despite the aforesaid, a banking corporation may grant a borrower an additional loan to complete the financing of another apartment, subject to meeting all the terms and conditions set out in the FAQ.

In addition, it was determined that among the objectives included in classifying "all-purpose loans", a loan secured by an apartment as outlined in Section 3(3) to Directive No. 451, which is not intended for the purchase of real estate, and that the loan intended to recycle an existing loan shall be classified in accordance with the original purpose of the loan (loan to purchase an apartment or all-purpose-loan). A loan intended to recycle several loans will be classified proportionately to the purpose of the original loans.

On January 31 2022, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directive No. 451. The purpose of the directive is to increase information transparency to customers and improve the competitive environment in the mortgage sector.

- On pre-approval, a banking corporation is required to provide customers with 3 uniform tracks and an additional "suggested track" - a track that is recommended to the customer.
- Banking corporations are not required to present uniform tracks for all-purpose loans secured by residential properties if the loan is not intended to purchase real estate rights, and for housing loans that are not secured by residential properties (such as home-improvement loans), since they are for shorter terms and lower amounts (and are more akin to consumer loans).
- Banking corporations are required to provide customers with an online calculator to enable them to run loan scenarios for various amounts and periods.
- Banking corporations are required to provide customers with pre-approval up to 5 working days from the date on which the loan application was submitted. In unusual cases, where loans are predefined in a banking corporation's credit policy, pre-approval will be provided within 7 working days, and customers will be informed about the delay and reasons thereto.
- The directive determined the type of information a banking corporation is required to present in its app, but customers which do not use digital channels should be informed in writing.

- Uniform rules have been set to calculate the “overall expected interest” in the banking system.

The Bank is preparing to implement the revised directive. The revision will enter into force on August 31 2022.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Change from end of previous year
	In NIS millions	In %
December 31 2019	83,746	4.8
December 31 2020	89,594	7.0
December 31 2021	**103,109**	**15.1**

Recent years saw an increase in total housing loans. The increase continued and even grew further in 2021, 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.

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 percent, in Israel

Following is the development in new credit granted by the Bank at an LTV ratio of over 60 percent, (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):

	2021				2020	2019
	Q4	**Q3**	**Q2**	**Q1**	Annual average	Annual average
LTV ratio	**In %**[(a)]					
More than 60 and up to 70, inclusive	**21.7**	**21.8**	**22.4**	**20.7**	19.7	17.2
More than 70 and up to 75, inclusive	**23.2**	**24.3**	**23.6**	**21.5**	19.1	17.5
More than 75	**0.1**	**0.1**	**0.1**	**0.2**	0.2	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 2021.

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, as well as in 2021, the internal set of metrics is revised, both in relation to the developments of the portfolio as a whole ("inventory") and in relation to the new loan origination risk profile, which is monitored on an ongoing basis, at least on a quarterly basis. The criteria formulated address multiple aspects and characteristics that reflect diverse, complementary perspectives of the risk embodied in the portfolio and new credit. 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. Due to the continuing private consumption trend in the Israeli economy under the impact of the coronavirus crisis and the resulting level of households' leverage, developments in this portfolio continued to be closely, and even more intensely, monitored in 2021.

Impact of the coronavirus crisis

The government aid programs supported households adversely affected by the coronavirus crisis.

The unemployment rate is likely to have a long term adverse effect on the loan portfolio of private individuals.

For more information regarding the draft revision of the FAQ published by the Bank of Israel on October 6 2021, please see under "Risks in the Housing Loan Portfolio".

Proper Conduct of Banking Business Directive regarding management of consumer credit

On February 4 2021, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 311A, Management of Consumer Credit.

The directive concentrates the requirements imposed by the Banking Supervision Department on the banking system in respect of retail customers.

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 2021.

Groups of borrowers[5]

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".

On December 27 2021, the Banking Supervision Department published an amendment to Directive No. 313, which excludes from the definition of a "controlling entity" an institutional investor which holds no more than 20 percent of the means of control in a corporations, even if it holds the highest equity stake.

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[5] A borrower group is all of the following together: the borrower, a person controlling it and all those controlled by them, excluding banks. 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. If a corporation is held by more than one person, the owners should include any non-controlling party for whom the banking corporation is material (e.g. from an equity standpoint), with the owned corporation and any other entity controlled by the owners as a single group of borrowers; exceptions are cases where an institutional investor holds no more than 20 percent of controlling means, even in cases where it holds the highest equity stake. 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.

The amendment became effective as at January 1 2022.

As at December 31 2021, the Bank complies with the directive's restrictions.

For more information about borrower groups, please see under "Credit Risks" in the Report of the Board of Directors and Management as at as at December 31 2021.

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 2021.

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 IM with an unaffiliated third party custodian for non-centrally cleared transactions.
2. In activities in marketable derivatives abroad, the offsetting and netting mechanisms are based on agreements consistent with the provisions of the Transactions in Financial Assets Law.
3. In the local activity with MAOF (marketable derivatives), there are no specific netting agreements and the activity is performed against deeds of pledge or solo.

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.

The Bank's Capital Markets Division monitors counterparty credit exposures in all types of derivatives transactions. The Division closely monitors customers who are active in the financial and capital markets, as well as similar activity carried out by other customers of the Bank. The Division is responsible for the models for calculating the collateral requirement, the criteria used by these models, the IT systems which measure compliance with the boundaries of the activity and the work procedures.

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.

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

		A	B	E	F
		December 31 2021			
		Replacement cost	Potential future exposure	EAD after CRM	RWA
		In NIS millions			
1	Current exposure method	**6,574**	**16,204**	**13,978**	**4,459**
3	The comprehensive approach to credit risk mitigation (for securities financing transactions)	**-**	**-**	**6,920**	**38**
6	Total	**6,574**	**16,204**	**20,898**	**4,497**

		A	B	E	F
		December 31 2020			
		Replacement cost	Potential future exposure	EAD after CRM	RWA
		In NIS millions			
1	Current exposure method	5,820	11,457	11,017	4,129
3	The comprehensive approach to credit risk mitigation (for securities financing transactions)	-	-	1,955	37
6	Total	5,820	11,457	12,972	4,166

Credit Valuation Adjustment (CVA) Capital Charge (CCR2)

		A	B	A	B
		December 31			
		2021		2020	
		EAD after CRM	RWA	EAD after CRM	RWA
		In NIS millions			
3	Total portfolios for which CVA is calculated according to the standardized approach	**13,336**	**1,770**	10,381	1,522

Standardized Approach of Counterparty Credit Risk (CCR) Exposures by Regulatory Portfolio and Risk Weights[(a)] (CCR3)

	A	B	C	D	E	F	I
	December 31 2021						
Regulatory portfolio / risk weight	0%	2%	20%	50%	75%	100%	Total credit exposure
	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	**-**	**450**	**326**	**1**	**-**	**1,532**	**2,309**
Regulatory retail portfolios	**-**	**-**	**-**	**-**	**-**	**108**	**108**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,770**	**450**	**10,125**	**1,296**	**-**	**1,777**	**16,418**

	A	B	C	D	E	F	I
	December 31 2020						
Regulatory portfolio / risk weight	0%	2%	20%	50%	75%	100%	Total credit exposure
	In NIS millions						
Sovereignties	3,240	-	-	-	-	-	3,240
Public sector entities (PSEs) other than the central government	-	-	-	95	-	-	95
Banks, including multilateral development banks (MDBs)	-	-	4,437	305	-	80	4,822
Securities firms	-	-	3,210	-	-	-	3,210
Corporations	-	-	391	-	-	2,167	2,558
Regulatory retail portfolios	-	-	-	-	-	111	111
Other assets	-	-	-	-	-	-	-
Total	3,240	-	8,038	400	-	2,358	14,036

(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.

Composition of Collateral for Counterparty Credit Risk (CCR)[a] Exposure (CCR5)

	A	B	C	D	E	F
	December 31 2021					
	Collateral for derivatives transactions				Collateral for securities financing transactions (SFTs)	
	Fair value of received collateral		Fair value of posted collateral		Fair value of received collateral	Fair value of posted collateral
	Encum-bered	Unencum-bered	Encum-bered	Unencum-bered		
	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	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**14,056**	**1,004**	**14,323**	**6,920**	**7,638**

	A	B	C	D	E	F
	December 31 2020					
	Collateral for derivatives transactions				Collateral for securities financing transactions (SFTs)	
	Fair value of received collateral		Fair value of posted collateral		Fair value of received collateral	Fair value of posted collateral
	Encum-bered	Unencum-bered	Encum-bered	Unencum-bered		
	In NIS millions					
Cash - Local currency	-	376	-	41	354	585
Cash - Other currencies	-	8,527	-	7,239	-	2,423
Local sovereign debt	-	1,511	847	-	614	409
Other sovereign debt	-	145	-	3,966	226	-
Government agency debt	-	-	-	-	2,848	-
Corporate bonds	-	-	-	-	431	16
Shares	-	-	-	-	101	1,366
Other collateral	-	-	-	-	-	-
Total	-	10,559	847	11,246	4,574	4,799

(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).

Credit derivatives exposures (CCR6)

As of December 31 2021 and December 31 2020, the Bank has no credit derivative transactions that were bought or sold.

Exposures to central counterparties (CCR8)

		A	B	A	B
		December 31			
		2021		2020	
		EAD after CRM	RWA	EAD after CRM	RWA
		In NIS millions			
1	**Exposures to qualifying central counterparty (QCCP)**	**1,914**	**176**	1,483	116
2	Exposures to transactions with QCCP (excluding primary collateral and transfers to risk reserve), of which:	**1,914**	**176**	1,483	116
4	Marketable derivative transactions on the stock exchange	**878**	**176**	580	116
7	Unencumbered primary collateral	**911**	**-**	725	-
9	Funded transfers to risk fund	**125**	**-**[(a)]	178	-[(a)]

(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.

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 the 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".

In 2021, there were no significant changes in the corporate governance structure, policies and market risk management.

Due to the spread of the coronavirus, there was an increase in the volatility level of risk factors in financial markets. The Federal Reserve has already begun to explain the principles of the interest normalization outline; this process may affect future trends in financial markets. Therefore, the high degree of uncertainty in the equity markets continues, and volatility may go on and even worsen. The process of global recovery from the crisis focuses central banks on addressing economic challenges and issues other than those addressed at the height of the crisis. Some of the central banks, including the Bank of Israel, began to gradually wind down their quantitative easing and their intervention in the bond and interest markets.

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 outline 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. The foreign subsidiaries determine their market risk management policies in line with the Group's policies and its approved risk frameworks, as well as according to the local regulation and business environment in which they operate. Information on the actual exposure status according to the established frameworks is reported by the subsidiaries and taken into account in the overall management of the Group's exposures.

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.

For investments in entities whose main business is derivative financial instruments and short sales (hedge funds), quantitative limitations regarding the investment amount were set, in accordance with the risk profile. In addition, extensive due diligence testing is conducted, as are control circles and corporate governance processes, based on reporting and measuring mechanisms.

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.

In 2016, the Bank received an individual approval from the Bank of Israel, under which, for the purpose of capital adequacy measurement, the actuarial liability for employees may be discounted according to an eight-quarter moving average of market yields, which are affected, as aforesaid, by the Government of Israel's bond curve and by the U.S. AA corporate bond spread. The approval significantly moderated the volatility of the regulatory capital resulting from changes in the discount interest rate. The approval is valid until December 31 2024.

Against part of the actuarial liability, there is an investment in the "plan assets", that is intended to service the obligation, through investment in diverse and diversified assets such as stocks and debt assets. The investment is subject to regulatory restrictions and limits set by the funds managing the plan assets.

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 percent. 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	
	2021	2020
	In NIS millions	
Actual	**94**	**162**

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	
		2021	2020
		Risk-weighted assets	
		In NIS millions	
	Direct products		
1	Interest rate risk (collective and specific)	**4,508**	3,800
2	Equity risk (general and specific)	**41**	141
3	Foreign exchange rate risk	**428**	1,036
	Options		
7	The scenario approach	**503**	282
8	**Securitization**	**112**	54
9	Total	**5,592**	5,313

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.

It should be clarified that there is uncertainty regarding the ramifications of the continuing coronavirus pandemic and their effect of capital markets in Israel and abroad.

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, and vendor models are challenged using accepted methodologies.

Following are the main restrictions on exposure to market risks as at December 31 2021:

	in NIS million/% of equity
Restriction of sensitivity of the fair value to concurrent interest rate changes of 1%	
The banking book in NIS*	**3%**
The banking book in foreign currency	**1.5%**
The trading book in NIS	**300**
The trading book in foreign currency	**200**
Value at Risk (VaR) red flags	
Banking book**	**1,200**
Trading book	**250**

* The restriction was revised at the beginning of 2022 in accordance with the risk appetite framework.

** In 2021, the methodology used to measure the banking book's VaR was modified, such that the scenarios are calculated on the basis of the fair value balances, and a red flag was set in accordance with this methodology. A number of deviations from this red flag were recorded during the year; those deviations constitute observations of the coronavirus scenarios.

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 2021				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total
	In NIS millions				
Financial assets[b]	**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[b]	**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[a] 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**

	December 31 2020				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total
	In NIS millions				
Financial assets[b]	370,445	49,320	60,357	35,304	515,426
Other amounts receivable in respect of derivative and compound off-balance-sheet financial instruments	204,297	6,627	278,080	136,043	625,047
Financial liabilities[b]	331,771	21,720	87,236	43,863	484,590
Other amounts payable in respect of derivative and compound off-balance-sheet financial instruments	230,241	7,516	252,682	127,930	618,369
Net fair value of financial instruments	12,730	26,711	(1,481)	(446)	37,514
Effect of the liabilities for employee benefits	-	(15,952)	(39)	(47)	(16,038)
Effect of the spread of demand deposits over periods	527	-	463	(43)	947
Adjusted[a] net fair value of the financial instruments of the Bank and its subsidiaries	13,257	10,759	(1,057)	(536)	22,423
Of which: banking book	12,159	9,983	(1,290)	(589)	20,263

(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 34A to the Financial Statements.

(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[(a)] of the Bank and its subsidiaries

	December 31 2021				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total[(d)]
	In NIS millions				
Concurrent changes					
Concurrent increase of 1%	**(364)**	**597**	**(11)**	**30**	**252**
Of which: banking book	**(305)**	**636**	**(45)**	**28**	**314**
Concurrent decrease of 1%	**62**	**(1,248)**	**(103)**	**(33)**	**(1,322)**
Of which: banking book	**-**	**(1,290)**	**(100)**	**(31)**	**(1,421)**
Non-concurrent changes					
Steepening[(b)]	**(669)**	**916**	**(12)**	**23**	**258**
Of which: banking book	**(640)**	**926**	**(47)**	**22**	**261**
Flattening[(c)]	**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**

	December 31 2020				
	NIS		Foreign currency		
	Non-linked	CPI-linked	USD	Other	Total[(d)]
	In NIS millions				
Concurrent changes					
Concurrent increase of 1%	(464)	688	(173)	(5)	46
Of which: banking book	(521)	764	(132)	3	114
Concurrent decrease of 1%	484	(1,090)	(12)	4	(614)
Of which: banking book	541	(1,174)	51	(4)	(586)
Non-concurrent changes					
Steepening[(b)]	(677)	839	(79)	20	103
Of which: banking book	(621)	870	(122)	18	145
Flattening[(c)]	554	(812)	(121)	(21)	(400)
Of which: banking book	486	(826)	(53)	(17)	(410)
Short-term interest rate increase	304	(339)	(172)	(21)	(228)
Of which: banking book	218	(319)	(116)	(14)	(231)
Short-term interest rate decrease	(320)	341	199	22	242
Of which: banking book	(234)	321	145	14	246

(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 the interest income and noninterest finance income, net(a)

	For the year ended December 31					
	2021			2020		
	Interest income	Noninterest finance income	Total	Interest income	Noninterest finance income	Total
	In NIS millions					
Concurrent changes						
Concurrent increase of 1%	**1,092**	**191**	**1,283**	1,220	320	1,540
Of which: banking book	**1,092**	**254**	**1,346**	1,171	395	1,566
Concurrent decrease of 1%	**(1,464)**	**(154)**	**(1,618)**	(1,146)	(415)	(1,561)
Of which: banking book	**(1,465)**	**(253)**	**(1,718)**	(1,197)	(397)	(1,594)

(a) After netting effects.

Additional Information on Interest Rate Risk

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

	December 31 2021				
	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[(a)]	**426,903**	**19,932**	**40,591**	**47,205**	**34,722**
Other amounts receivable[(b)]	**150,292**	**173,063**	**158,515**	**100,633**	**61,805**
Financial liabilities[(a)]	**364,527**	**32,973**	**59,722**	**69,162**	**23,396**
Other amounts payable[(b)]	**144,781**	**168,351**	**164,816**	**96,096**	**58,945**
Exposure to interest rate changes	**67,887**	**(8,329)**	**(25,432)**	**(17,420)**	**14,186**
More information on exposure to interest rate changes					
a. By nature of activity[(e)]					
Exposure of the banking book	**65,753**	**(8,372)**	**(17,998)**	**(21,850)**	**12,247**
Exposure of the trading book	**2,134**	**43**	**(7,434)**	**4,430**	**1,939**
b. By linkages bases[(e)]					
Non-linked NIS	**86,158**	**(18,065)**	**(41,164)**	**(21,316)**	**6,743**
CPI-linked NIS	**485**	**1,576**	**2,556**	**3,333**	**8,319**
Foreign currency (including linked to foreign currency)	**(18,756)**	**8,160**	**13,176**	**563**	**(876)**
c. Effects of exposure to interest rate changes[(d)]					
Effect of the liabilities for employee benefits	**-**	**-**	**(120)**	**(1,384)**	**(120)**
Effect of the spread of demand deposits over periods	**104,839**	**(6,169)**	**(23,331)**	**(32,007)**	**(9,432)**
Effect of early repayment of housing loans	**548**	**704**	**2,535**	**3,331**	**16**
Effect of backed assets	**90**	**160**	**598**	**1,049**	**516**

(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.

More than five years and up to ten years	More than ten years and up to twenty years	More than twenty years	Without loan term	Total fair value	Internal rate of return	Average effective life[c]	December 31 2020 Total fair value	Internal rate of return	Average effective life[c]
					In %	In years		In %	In years
29,690	**11,017**	**4,921**	**298**	**615,279**	**1.92%**	**1.19**	515,426	1.73%	1.45
66,651	**4,467**	**2,333**	**-**	**717,759**	**-**	**1.65**	625,047	-	1.75
25,010	**4,216**	**-**	**51**	**579,057**	**0.52%**	**0.82**	483,643	0.42%	0.87
72,562	**11,134**	**9,314**	**-**	**725,999**	**-**	**2.06**	634,407	-	2.29
(1,231)	**134**	**(2,060)**	**247**	**27,982**	**-**	**-**	22,423	-	-
(1,646)	**463**	**(2,073)**	**246**	**26,770**	**-**	**(0.15)**	20,263	-	(0.05)
415	**(329)**	**13**	**1**	**1,212**	**-**	**0.02**	2,160	-	(0.06)
2,703	**1,323**	**1,017**	**173**	**17,572**	**-**	**0.03**	13,257	-	0.07
1,310	**(2,666)**	**(3,689)**	**1**	**11,225**	**-**	**(2.74)**	10,759	-	(3.38)
(5,244)	**1,477**	**612**	**73**	**(815)**	**-**	**0.01**	(1,593)	-	0.03
(2,608)	**(6,366)**	**(6,149)**	**-**	**(16,747)**	**0.65%**	**16.39**	(16,038)	1.22%	17.51
(27,141)	**(3,723)**	**-**	**-**	**3,036**	**0.46%**	**0.89**	947	0.39%	0.85
(169)	**(4,562)**	**(1,950)**	**-**	**453**	**(0.45%)**	**(0.89)**	66	(0.17%)	(0.58)
118	**(1,305)**	**(1,226)**	**-**	**-**	**0.38%**	**(7.34)**	-	6.62%	(9.95)

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

	December 31 2021					
		Average effective	Fair value assuming changes in interest rates			
			Increase of:		Decrease of:	
	Fair value	life	2%	1%	2%	1%
	In NIS millions	In years	In NIS millions			
Foreign currency segment						
Compound financial assets:						
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**

	December 31 2020					
		Average effective	Fair value assuming changes in interest rates			
			Increase of:		Decrease of:	
	Fair value	life	2%	1%	2%	1%
	In NIS millions	In years	In NIS millions			
Foreign currency segment						
Compound financial assets:						
Backed assets	9,373	1.86	8,820	9,133	9,598	9,463
Total compound financial assets	9,373	1.86	8,820	9,133	9,598	9,463
Total change in the fair value of compound financial instruments, net as a result of interest rate changes	9,373	1.86	8,820	9,133	9,598	9,463

For more information regarding the assumptions used to calculate the fair value of the financial instruments, please see Note 34A to the Financial Statements.

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)

	The potential change in economic value as a result of the scenario					
	December 31 2021			December 31 2020		
	Increase of 1%	Decrease of 1%	Concurrent increase of 0.1%	Increase of 1%	Decrease of 1%	Concurrent increase of 0.1%
Scenario	In NIS millions					
in NIS						
Banking book	**(530)**	**(191)**	**(30)**	(559)	397	(55)
Trading book	**(98)**	**104**	**(10)**	(24)	30	(3)
In foreign currency						
Banking book	**(72)**	**(62)**	**(3)**	(187)	111	(23)
Trading book	**37**	**(7)**	**3**	(45)	(59)	-

* 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.

In 2021, there was not material change in economic value's exposure to increase rate increase in Israeli currency. The effect of updating the non-maturity deposit model and the mortgages early repayment model, as well as the issue of bonds was offset by credit provision effect. In foreign currency there was a decrease in exposure to interest rate increase primarily due to nostro portfolios activity and from updating the non-maturity deposit model in the foreign subsidiary.

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			
	2021		2020	
	Fair value	Capital requirements[(a)]	Fair value	Capital requirements[(a)]
	In NIS millions			
Non-marketable equity securities in the not held-for-trading portfolio	**1,743**	**218**	1,566	196
Marketable equity securities and funds in the not held-for-trading portfolio	**2,601**	**325**	2,769	346
Total	**4,344**	**543**	4,335	542

(a) The capital requirements were calculated in accordance with the minimum total capital required by the Banking Supervision Department at a rate of 12.50 percent.

Part 7 - Liquidity Risk

Liquidity risk is the risk arising due to uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. 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 the requirements of Proper Conduct of Banking Business Directive No. 221, "Liquidity Coverage Ratio", which adopts the recommendations of the Basel III Committee for calculating the liquidity coverage ratio (LCR), with adjustments for the Israeli economy.

Proper Conduct of Banking Business Directive No. 221, "Liquidity Coverage Ratio", stipulates that a bank shall have a sufficient stock of high-quality liquid assets to meet the liquidity requirements for a time-horizon of 30 days, under a combined stress scenario presented in the Directive.

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.

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.

Directive for calculating net stable funding ratio (NSFR)

Beginning on the financial statements as at December 31 2021, the Bank applies Directive No. 222, Net Stable Funding Ratio (NFSR) - which is based on a publication issued by the Basel Committee. The Net Stable Funding Ratio is designed to improve the long-term liquidity risk profile of banking corporations by requiring them to maintain a stable financing profile in accordance with the composition of their assets and off-balance sheet activities. The ratio limits over-reliance of banking corporations on short-term wholesale financing. The measurement - both in the consolidated and standalone financial statements, is conducted once every quarter; the requirement is to comply with a 100 percent ratio.

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.

During 2021, the liquidity coverage ratio declined relative to its high level in the first quarters of 2021, mainly as a result of higher utilization than the increase in stable sources. In 2021, the LCR in foreign exchange and across all currencies was above the regulatory requirement.

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

		For the three months ended December 31			
		2021		2020	
		(Average) total unweighted value[(a)(d)]	(Average) total weighted value[(b)]	(Average) total unweighted value[(a)(d)]	(Average) total weighted value[(b)]
		In NIS millions			
1	Total high-quality liquid assets (HQLA)		**189,707**		159,197
	Cash outflows				
2	Retail deposits from individuals and small businesses	**209,808**	**16,674**	207,014	15,572
3	Of which: Stable deposits	**63,271**	**3,182**	59,931	3,018
4	Less stable deposits	**105,495**	**12,261**	96,767	11,045
4A	Deposits for a period exceeding 30 days	**41,042**	**1,231**	50,316	1,509
5	Unsecured wholesale financing	**246,330**	**163,773**	184,802	116,531
7	Of which: non-operational deposits (all counterparties)	**246,329**	**163,772**	184,368	116,097
8	Unsecured debts	**1**	**1**	434	434
10	Additional liquidity requirements	**76,529**	**12,774**	72,917	12,259
11	Of which: outflows in respect of exposure to derivatives and other collateral requirements	**6,560**	**6,560**	6,680	6,680
13	Credit lines & liquidity	**69,969**	**6,214**	66,237	5,579
14	Other contractual financing commitments	**511**	**511**	2,542	2,542
15	Other contingent financing commitments	**51,378**	**1,559**	43,848	1,374
16	**Total cash outflows**		**195,291**		148,278
	Cash inflows				
17	Secured loans (e.g., reverse repurchase transactions)	**1,601**	**-**	598	-
18	Cash inflows from regularly repaid exposures	**59,890**	**39,883**	48,406	30,826
19	Other cash inflows	**8,532**	**1,921**	7,058	1,589
20	**Total cash inflows**	**70,023**	**41,804**	56,062	32,415
	Total adjusted value[(c)]				
21	Total high-quality liquid assets (HQLA)		**189,707**		159,197
22	Total cash outflows, net		**153,487**		115,863
23	Liquidity coverage ratio (%)[(e)]		**124%**		137%

(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 78 daily observations during Q4 2021 (79 observations during Q4 2020).

(e) The Bank is examining the methodology of calculating the liquidity ratio; the Bank believes that applying a new methodology, if any, will leave the Bank with a higher liquidity ratio that the regulatory requirements. Due to the aforesaid, and in coordination with the Banking Supervision Department, the Bank set, at this stage, an internal liquidity coverage ratio of 115 percent that exceeds the minimum 100 percent liquidity coverage ratio required by the Banking Supervision Department.

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					
	2021			2020		
	NIS	Foreign currency	NIS and foreign currency	NIS	Foreign currency	NIS and foreign currency
	Total weighted value in NIS millions					
Total Tier 1 assets	**147,075**	**34,042**	**181,117**	114,922	35,013	149,935
Total Tier 2A assets	**-**	**8,255**	**8,255**	-	8,713	8,713
Total Tier 2B assets	**75**	**260**	**335**	195	354	549
Total high-quality liquid assets	**147,150**	**42,557**	**189,707**	115,117	44,080	159,197

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

	As at December 31					
	2021			2020		
	NIS	Foreign currency	NIS and foreign currency	NIS	Foreign currency	NIS and foreign currency
	Total weighted value in NIS millions					
Total Tier 1 assets	**165,748**	**41,821**	**207,569**	133,284	33,430	166,714
Total Tier 2A assets	**-**	**8,241**	**8,241**	-	8,581	8,581
Total Tier 2B assets	**174**	**261**	**435**	175	347	522
Total high-quality liquid assets	**165,922**	**50,323**	**216,245**	133,459	42,358	175,817

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 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**			**-**
13	All other liabilities and equity not included in the above categories	**-**	**5,613**	**1,006**	**12,000**	**12,503**
14	**Total Available Stable Funding**					**379,338**
	Required Stable Funding (RSF) items					
15	Total High-Quality Liquid Assets (HQLA) according to NSFR	**-**	**-**	**-**	**-**	**3,676**
16	Deposits held in other financial institutions for operational purposes	**-**	**-**	**-**	**-**	**-**
17	Regularly repaid loans and securities:	**316**	**113,405**	**21,554**	**238,577**	**260,595**
18	Regularly repaid loans to financial institutions, secured by high-quality Tier 1 liquid assets	**-**	**1,603**	**-**	**-**	**160**
19	Regularly repaid loans to financial institutions, secured by high-quality non-Tier 1 liquid assets, and regularly repaid unsecured loans to financial institutions	**-**	**19,911**	**302**	**3,286**	**6,423**
20	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:	**-**	**89,628**	**19,370**	**110,043**	**148,035**
21	With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203	**-**	**-**	**-**	**-**	**-**
22	Regularly repaid housing loans secured by a mortgage, of which:	**-**	**351**	**383**	**103,851**	**84,088**
23	With a risk weight of 35% or less as per Proper Conduct of Banking Business Directive No. 203	**-**	**80**	**108**	**29,062**	**20,244**
24	Securities not in default which do not qualify as high-quality liquid assets, including exchange traded shares	**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	**-**			**-**	**-**
28	Assets deposited as a primary collateral for derivatives and contributions to default fund of central counterparties (CCPs)	**-**			**3,252**	**2,764**
29	Assets for derivatives for the purpose of NSFR	**-**			**1,770**	**-**
30	Liabilities for derivatives for the purpose of NSFR before deduction of deposited variable collaterals	**-**			**412**	**412**
31	All other asset categories not included in the above categories	**5,542**	**2,193**	**347**	**7,963**	**16,045**
32	**Off-balance sheet items**	**-**			**148,689**	**6,798**
33	**Total RSF**					**290,290**
34	**NSFR (%)**					**131%**

The Bank complies with the regulatory requirement as at the report date and even did so for measurements made prior to the reporting requirement. The Bank set Net Stable Funding Ratio restrictions, in addition to the Liquidity Risk Management restrictions.
Leumi's NSFR relies on stable sources and high-quality assets.
The recognized regulatory capital as per Directive No. 222 (the Net Stable Funding Ratio directive) amounting to NIS 51.8 billion, plus equity instruments amounting to NIS 9.3 billion, aggregate to NIS 61.1 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% under Directive No. 222 amount to NIS 210.4 billion, with total loans to the public as per the balance sheet amounting to USD 342.8 billion, that is to say, 61% 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 227.5 billion, and total assets in the balance sheet amounts to NIS 656.4 billion, that is to say, 35% of the balance sheet assets have Required Stable Funding Ratio of 5% or less.

Additional Information on Liquidity Risk and Financing Risk

Liquidity Risk

The Bank has a contingency plan in place for handling a liquidity crisis, which includes a system of warning signs that may indicate a shift in the Bank's liquidity position. On the appearance of warning signs, a special forum will convene to assess the situation and examine the need to activate the plan, based on the level of severity. The plan includes 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.
Leumi maintains a high level of liquidity, which is among its foundations and relative advantages in the local and global banking domain. The basis for Leumi’s financing is deposits by the public and debt instruments - which constitute a stable source of financing. The main basis for Leumi's foreign currency is corporate deposits, financial deposits and individual deposits by Israeli residents and nonresidents.

Following is the development of the average balances:

	2021				2020			
	Unweighted value of retail deposits				Unweighted value of retail deposits			
	Q1	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Up to one month	**161,307**	**165,169**	**168,008**	**168,766**	125,997	144,045	150,783	156,698
More than one month	**47,755**	**45,700**	**43,936**	**41,042**	56,580	53,765	52,611	50,316
Total	**209,062**	**210,869**	**211,944**	**209,808**	182,577	197,810	203,394	207,014

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.

Over the years, 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. About 30 percent of the deposits by the public are made in foreign currency. The Bank has a wide range of foreign currency sources from nonresidents, and from local retail, business and financial customers. In the past year, there was an increase in financial and non-financial foreign currency deposits. The excess deposits over foreign currency credit is invested in liquid assets and various terms swaps.

There was a moderate increase in shekel retail deposits during the first three quarters of 2021. This trend was discontinued in the fourth quarter of 2021.

In 2021, there was a decrease in the amount of bonds, promissory notes and subordinated bonds by approx. NIS 1 billion, net.

The concentration of financing sources is managed and monitored using risk management indicators and models. The Bank follows up on the composition and concentration of sources by several categories: customer size and type, single depositor, the deposit’s life, typical behavior over time. The ongoing management of the sources’ composition includes developing a policy for source diversification and financing periods. The concentration of the sources is controlled and managed by the Bank as part of its liquidity risk management. 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.

Pledged assets by balance sheet line item

	December 31 2021			
	Pledged assets	Of which: Assets used as collateral for a central bank	Unencumbered assets	Total
	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 or mortgage-backed bonds	**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**

	December 31 2020			
	Pledged assets	Of which: Assets used as collateral for a central bank	Unencumbered assets	Total
	In NIS millions			
Cash and deposits with banks	23,233	20,707	112,961	136,194
Of which: for securities loaned or sold under repurchase agreements	605	-	-	605
Securities	14,419	9,324	77,878	92,297
Of which: Israeli government bonds	10,335	9,324	31,549	41,884
Of which: foreign government bonds	3,907	-	16,209	20,116
Of which: Bonds of Israeli financial institutions	-	-	392	392
Of which: Bonds of foreign financial institutions	96	-	8,863	8,959
Of which: bonds of other Israeli entities	-	-	278	278
Of which: bonds of other foreign entities	-	-	6,931	6,931
Of which: asset-backed bonds or mortgage-backed bonds	81	-	9,260	9,341
Of which: Shares and funds	-	-	4,396	4,396
Securities borrowed or purchased under reverse repurchase agreements	3,019	-	-	3,019
Loans to the public	8,972	1,100	286,369	295,341
Other	-	-	29,184	29,184
Total assets	49,643	31,131	506,392	556,035

The increase in the scope of pledged assets in 2021 stems mainly from collaterals in favor of the Bank of Israel, provided under long-term loans received from the Bank of Israel. For more information, see Note 27 to the Financial Statements as at December 31 2021.

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 in respect of operational risk is calculated using the standardized approach in the Banking Supervision Department’s capital adequacy measurement provisions.

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.

In the wake of coronavirus crisis, adjustments were made to the work and control procedures, which were examined by all relevant functions, including: Business Continuity, business functions, Risk Management, Information Security, Compliance and Legal Counsel.

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 Cyber Risk Department in the Risk Management Division is responsible for, and leads, the operational risk management process, while forming recommendations for the risk management policy and risk tolerance, developing methodologies and professional responsibility, as well as guiding and challenging (subject to materiality considerations) of 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. Each year, the operational risk management policy is brought before the Board of Directors for discussion and approval.

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.

During the second quarter of 2021, it was decided to separate the cyber risk assessment from the traditional operational risk assessment, inter alia due to the uniqueness of the risk and its implications. For more information, see the chapter 'The banking corporation's Risk Management Approach' in this report.

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.

Life alongside Covid-19 has led to a significant increase in cyber-attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains. The characteristics of the attacks are varied and include ransomware, increase in phishing attempts and social engineering attacks. The exposure to the probability of a cyber event materializing increases as a result of a wider use of digital channels by customers and transitioning to 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 the reporting period, no cybersecurity incidents were discovered which affected Leumi's financial statements.

Technological Risks

As a champion and leader of technological innovation, which provides its customers with advanced services across all channels, including digital ones, according their needs, the Bank requires technologically advanced, robust infrastructures. Such infrastructure creates business opportunities on the one hand, while on the other hand, raising the level of exposure to technology risks in the business and operating activity.

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 has started 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 an 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.

To reinforce the technological function’s functional redundancy, the Tel Aviv computing center was transferred to Jerusalem, in addition to the Leumi Service Campus located in Lod.

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 approved, with third-party risk management being addressed in the operational risk policy.

Embezzlement

The effect of the coronavirus crisis on the work processes at the Bank, especially telecommuting, may increase the risk of embezzlement.

To address the risk, the Bank works 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, and the coronavirus crisis, 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, as well as the growing demand for employees with technological skills. Leumi uses various means to handle risk, including: improving hiring capabilities, expanding hiring channels, knowledge conservation, as well as retention of employees with technological skills or unique business knowledge.

Part 9 - 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 two:

- Physical risks - arise from exposure to potential harm due to the scope and frequency of climate change, such as heat waves, floods, and rise in sea level. The materialization of this risk has a direct effect, inter alia, on the Bank's own activity and its business continuity capabilities, as well as on the activity of its customers and their investments.
- Transition risks - arise from the potential effect of changes and adjustments made in addressing climate-related risks and the efforts to mitigate them: such as policy changes, transitioning to low-carbon economy, adoption of environmentally-friendly technologies, technological changes, changes in market preferences, in the business environment, etc.
- The Bank is exposed to these risks both directly and indirectly:
- Direct damage may be incurred by the Bank in case, for example, of harm, due to environmental factors, to its physical infrastructure, that is critical to its business continuity. But even if the Bank is found to be responsible for an environmental hazard, including the possibility of the Bank being required to incur the costs of removing an environmental hazard or is found responsible for an environmental hazard towards a third party.
- Indirect damage may be caused due to harm to the Bank's customers, the value of its collateral or the value of its investment portfolio. Thus, for example, indirect damage may be caused to the Bank if it extended financing to a company and that company had endured damage due to environmental causes or caused environmental damage. The damage incurred by that company could compromise its repayment capacity, thus indirectly affecting the Bank's asset value.

Additionally, the Bank may be exposed to reputational risk if the Bank is associated with an entity causing environmental damage, either directly as the generator of the hazard or indirectly due to having financed the hazard-causing entity.
Thus, environmental risks may have a financial and non-financial impact on the Bank, such as credit risk, market risk, operational risk, compliance risk, legal risk, regulatory risk, reputational risk, and liquidity risk.

In recent year, there is greater global awareness of potential exposure as a result of the materialization of environmental risks and climate-related risks. As a result, legislation in this respect has greatly expanded worldwide, and companies now take into account environmental criteria when making ongoing business decisions. In Israel too, legislation on the topic has expanded, but compared to Europe and the US, it is still in its initial stages.

As part of this trend, on December 5 2021, the Banking Supervision Department published a Reporting to the Public Directive regarding disclosure on environmental, social and governance (ESG) aspects, applicable as from the annual financial statements for 2021. Accordingly, below is a list of key quantitative ESG indicators, which affect the Bank's business strategy.
The Bank regards environmental and climate-related risks as an integral part of the Bank's targets, both in order to maintain its stability and due to its central role and importance to the Israeli economy and society; it also regards this as a business-strategic opportunity. According to the decision of the Board of Directors, the Bank is working to define and integrate corporate governance and a supportive operational model, as well as improve the management and measurement tools.

As part of the implementing the strategy, 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.

These opportunities include, inter alia:

- Providing business credit for “green” ventures and companies
- Investing in “green” through the nostro account
- Investing in “green” companies and projects by subsidiary Leumi Partners
- Developing trading capabilities in “green” contracts
- The Bank is evaluating additional opportunities, such as issuing “green” bonds

The Bank strives to reach a target of NIS 35 billion in such initiatives by 2030. 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.
In addition, the Bank is developing “green” products and value propositions for retail customers and is examining how to support its business customers in “going green”.

The Bank has developed a multi-year work plan for managing environmental and climate-related risks in corporate governance aspects, and incorporating environmental and climate-related risks as an integral part of risk management in the Bank’s various activities, including identification and promotion of business opportunities. In the coming year, the Bank will focus on improving methodologies, measurement methods as well as quantitative and qualitative information to manage environmental and climate-related risks. In this context, special emphasis will be made on the business credit domain, due to it significant business and environmental materiality.
To implement the multiyear work plan, the Bank has engaged external consultants who specialize in the topic both on the local and global levels.

The Risk Management Division and the Strategy Department are responsible for handling the Bank’s environmental risks. Corporate social responsibility and community outreach are managed by the Human Resources Division.

As aforesaid, 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:

- The credit portfolio -
  - Boosting environmental credit - as part of the regulated work procedures, an emphasis is placed on the integration of indicators for identifying environmental credit as part of the business considerations employed to identify financing opportunities. To advance the Bank’s objective of boosting environmental credit, a long-term target was set for environmental financing for the various divisions.
  - Credit risks management - The Bank is working to identify and map the environmental risks exposure, to manage and mitigate them, as far as possible, and to raise awareness among all those engaged in credit, of the possible adverse implications of environmental aspects - including climate aspects - on projects it provides credit to and on repayment capacity for various types of credit. The Bank regards the environmental risks exposure component - including climate risk - as part of all the relevant risks taken into account when reviewing credit and making credit decisions. The Bank is working to identify borrowers from economic sectors with high potential for credit risk exposure due to environmental factors when making specific credit-related decisions impacted by the manner in which the customer manages the risk and the nature of the to transaction. The objective is to identify the risks prior to their materialization, and to inform decision makers about them, as part of the credit risk assessment process and after monitoring the high-risk borrowers.
    In addition, in large credit transactions with potential for environmental pollution, at the Bank’s discretion, an environmental survey will also be conducted by an external company which specializes in identification and assessment of external environmental risk factors, in an effort to examine the environmental and climate-related aspect of the borrower’s activity, the transaction and meeting regulatory requirements.
- Investments - when making new investment decisions, environmental risks are also taken into account. The multiyear 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.

- Operations –
  - The Bank regards maintaining a sustainable environment as highly important; to that end, the Bank has ISO 14001 certification, under which regulations related to environmental risks are managed and monitored, including an annual inspection by the Standards Institution of Israel.
  - Leumi has been voluntarily measuring and reporting its carbon footprint to the authorities and the public since 2011.
    From 2013 until now, the Bank's carbon footprint has cumulatively declined by 47 percent.
    In recent years, power consumption is down by an average of approximately 5 percent per year.
    In recent year, the use of hybrid vehicles in the Bank's car fleet has grown; today, about 55 percent are hybrid vehicles.

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.

Society and corporate governance

The Leumi Group - one of Israel's largest banking groups, is publishing its ESG report for the 13th consecutive year, according to the GRI standards, undertaking to maintain data transparency towards its shareholders, customers and all other stakeholders. Every two years, the key economic, social and environmental challenges that are material to the Group's activity to its stakeholders are mapped, in order to maximize the Leumi Group's favorable impact and improve its environmental, social and governance performance.

The process is implemented by conducting an open discourse with all stakeholders, and the topics discussed form the basis for the corporate social responsibility work both in the short- and long-term.

The Leumi Group regards its human resource as the key engine of its success and attributes great importance to the satisfaction and professional and personal development of its employees. Under this approach, the Group acts to promote and maintain transparency, fairness, equal opportunity, employment diversity and avoidance of abusive employment, harassment and bullying at the workplace. Leumi views incidents of discrimination very seriously, and deals with them immediately and thoroughly.

As an organization working within the Israeli society, the Leumi Group continues to advance its social values vision by investment in the community, giving donations to and sponsoring social organizations, as well as volunteer work by the Group's employees. The Leumi Group's community involvement is reflected in ongoing investment, over many years, in tomorrow's generation. As of September 2019, the Bank's social policy is called "From Generation to Generation" and focuses on tomorrow's generation and on the third generation, as well as on connecting them.

Following are the main ESG targets, the materialization of which also depends on regulatory, technological and social developments:

	Objective	As at December 31 2021
The environment	The Bank strives to increase financing of and investment in projects or companies promoting a "greener" environment to NIS 35 billion by 2030	Approximately NIS 12.1 billion in credit has been earmarked to advance environmentally-friendly financing
	The Bank will consider issuing environmentally-friendly debt products ("green" bonds)	
	The Bank strives to reduce power consumption in the next five years by another 20 percent	From 2013 until now, the Bank's carbon footprint has cumulatively declined by 47 percent.
	The Bank strives to reduce transport fuel consumption in the next five years by another 20 percent, following our transition to hybrid vehicles and the availability of electric cars and hydrogen cars These actions will lead to reducing our carbon footprint by approximately 20 percent by 2027	In recent year, the use of hybrid vehicles in the Bank's car fleet has grown; today, about 55 percent are hybrid vehicles
Society	25 percent of new hires from under-represented populations by 2025. Expanding opportunities for under-represented populations, such as ultra-Orthodox women, during the technological job fair, including training. Appointing a hiring manager to be in charge of employment diversity and inclusion	As a bank which serves as a microcosmos of Israeli society in terms of employee mix, the aim of employment diversity has become part of Leumi's hiring policy in recent years. During 2021, Leumi implemented 2 significant hiring moves in the ultra-Orthodox society - for banking and technological roles In 2021, under-represented populations accounted for 18.7 percent of the workforce
Governance	Maintaining at least 30 percent female representation rate and establishing a future policy	3 women represent 30 percent of the Board of Directors' plenum at Leumi

For more information, please see the ESG Report on the Banks website.

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

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 conduct, risk management directives - especially environmental risk management, privacy protection and information security directives, as well as directives published on the back of the coronavirus and its implications.

For further details, please see Laws and Regulations Governing the Banking System in the Financial Report as at December 31 2021.

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 to the following: Changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; the Bank's costs compared to those of other entities; use of databases and information of the Bank's customers by non-banking entities as well as providing adequate value propositions to the Bank's customers. 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 and foreign offices and subsidiaries in order to monitor compliance issues as a whole and apply the Group's compliance policy. Due to the coronavirus crisis, adjustments are being made to the manner in which compliance risk is managed, while identifying emerging risks characteristic of crisis periods.

To effectively manage compliance risk, Leumi has in place a compliance and enforcement array, headed by the Chief Compliance Officer. The latter is responsible, among other things, for meeting the legal requirements of the prohibition on money laundering and financing of terrorism. The Chief Compliance Officer also serves as the securities law enforcement officer, the privacy protection officer, and the RO officer responsible for FATCA.

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 a lack of regulatory supervision along with 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 Officer and is responsible for the internal compliance program in the area of securities and investment management, which was approved by the Bank's Board of Directors. In 2018, the enforcement program was revalidated by an external expert.

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

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.

For more information regarding a monetary sanction imposed by the Banking Supervision Department, please see Note 26E in the Financial Report as at December 31 2021.

Legal Risk

Legal risk is defined as the risk of loss as a result of inability to enforce an agreement or as a result of contingent liabilities, including in respect of claims against, and demands from, the Bank. Legal risk includes risks arising from legislation, regulations, court rulings and directives issued by authorities, risk emanating from activity that is not covered by adequate agreements, or activity that is carried out without legal advice or under faulty legal advice, as well as a result of interpretation of the rights of parties to agreements between the Bank and its customers.

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 Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The policy paper has been revised periodically over the years, including in 2021.

The Group drew up a general policy paper, applicable to all subsidiaries, for managing legal risk, according to which each subsidiary prepared an internal procedure for managing legal risk in line with its activity and the Group's policy. The internal procedures have been approved by the Legal Counsel Division and by the subsidiaries' boards of directors. 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 Officer, as required by the policy paper. The reports were sent using a uniform format prepared by the Legal Counsel Division. In 2021, 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 statutory provisions (including case law) and regulatory directives, and their implications for the Bank.
  - 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 Division, headed by the Chief Legal Counsel - who also serves as Legal Risk Manager, special purpose factors and committees - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank.
In addition, the Legal Counsel Division identifies and handles, as needed, new regulation (primary legislation, secondary legislation, directives issued by authorities), as early as the proposed law or regulation formulation stage.

The activity of each of the abovementioned functions and committees is prescribed by internal work procedures of the Legal Counsel Division. The procedures stipulate, inter alia, the information interfaces between the various parties and the Division's management and legal risk team.

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 harm to current and future financial resilience and a result of harmful business decisions, faulty implementation of business 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.

The coronavirus crisis has had and still has an impact on the environment in which the Bank operates - macroeconomically, industry-wise, as well as in terms of regulation, the human resource, consumer behavior and technology. The crisis has perpetuated the digital transformation trends in the banking system in recent years.

A three-year plan, the Bank's strategic risk is approved by management and the Board of Directors. The strategic plan is set following an extensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, in an effort to identify 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, Data and Projects Division, which was established in September 2021 to deal with the abovementioned challenges.

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 continues to monitor changes and adjustments made to models and their usage, in accordance with the development of the crisis and the need to revise them, including by way of back testing.

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 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.

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 increased consumer regulation trend continues, with emphasis conduct. In this framework, emphasis is made on adapting the various financing products to customers' needs, while providing maximum disclosure and stressing transparent and fair conduct.

Bank Leumi 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 its customers. In addition, the proactive and sale processes are subject to procedures and controls which ensure proper conduct. These processes are assessed on a regular basis, with the aim of continuously upgrading them.

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

Macroeconomic Risk

Macroeconomic risk is the risk to the Group's income and capital arising from macroeconomic conditions, including economic growth, a low interest rate environment, global political power relations and their impact on global trade.
The Covid-19 crisis still represents a significant global macroeconomic risk, the ramifications of the crisis for the global economy, and to a lesser extent on the domestic economy, as well as for the Bank's business, may be substantial. This crisis may leave multiple economies across the world with significant sovereign debts, a development which is liable to pose a future risk to the stability of financial markets. This constitutes severe harm to 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.

In addition to the coronavirus risk, there are risks arising from climate change and various geopolitical risks, including the current Ukranian-Russian crisis, which increase the potential for volatile global economic processes.

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.

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	
A. Information about the functions supervising compensation	
Name, composition and purview of the main function regulating compensation.	The Board of Directors' Compensation Committee is the primary function supervising compensation in the Bank. 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.
Details of external consultants the Bank wishes to engage regarding compensation, the function requesting the service and in which aspects of the compensation processes.	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.
Description of the scope of the Bank's compensation policy.	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. The compensation policy applies to the entire group, and includes recommended guidelines and principles for the subsidiaries. The officer compensation policy was approved by the Bank's general meeting held in December 2019 and entered into force in 2020; it shall also apply to 2022. The compensation policy for non-executive key employees and a compensation policy for all Bank employees (who are not key employees) were approved in 2020 by the compensation committee and the Bank's Board of Directors. The aforesaid compensation policy for key non-executive employees applies as of 2021, and the aforesaid compensation policy for all Bank employees applies from the date of its approval.
A description of the types of employees defined as officers and other key employees.	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. 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.

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; 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.	No changes were made in 2021 in the Bank's compensation policy papers. Nevertheless, as stated above, the compensation policy for non-executive key employees, as approved in 2020, came into force in 2021. As in the case of the compensation policy for executives, the compensation policy for non-executive key employees includes an annual bonus component, which is based on the Bank's return on capital, an annual bonus component, which is based on the return on the Bank's share, and an annual bonus component, which is based on the Bank's operational efficiency ratio. The said compensation policy also includes a bonus component based on measurable business parameters derived from the divisions' work plans; personal bonus based on qualitative criteria, and the option to pay special bonuses, such as a retention bonus to non-executive key employees, in accordance with the expedient in the Banking Supervision Department's requirements with regard to this matter, and further flexibility as to compensation to outstanding non-executive key employees.
Discussion of the manner in which the Bank ensures that employees who handle risks and compliance are remunerated independently of the businesses they oversee.	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 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.	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 component - which is based, inter alia, on the Bank's return on equity - is calculated according to the Bank's weighted return on equity over a period of three years. In addition, an upper limit was set for the rate of return on equity for which maximum bonus is received, in accordance with the Bank's risk appetite. The qualitative personal bonus under the Compensation Policy is based, inter alia, on: compliance with the laws and regulations; compliance with the Bank's policy and procedures; no material deviation from the policies set by the Board of Directors, including adherence to the Bank's risk management policy and risk appetite; audit reports covering the key employee, 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. 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.
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.	The main performance measures in the Former Compensation Policy (weighted and calculated over three years) are as follows: • The Bank's return on equity; the difference between the annual return on the Bank's stock and the annual return on the Tel Aviv Bank index (net of the Bank's stock). • Measurement of personal qualitative criteria in accordance with the key employee's purview, such as: implementing and promoting

	strategic plans and objectives; increasing efficiency; proactively promoting and leading projects; complying with laws and regulations and with the Bank's procedures; meeting material provisions prescribed by the Board of Directors' policy papers; meeting the Bank's risk management policy and risk appetite; audit reports, etc.
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.	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, a substantial part of the annual measurable bonus is conditional on the Bank's reaching, at a minimum, a 7 percent weighted return on equity during the bonus year, and another part is conditioned upon reaching a Share Return Difference that is not negative between the annual return on the Bank's stock and the annual return on the TA Banks Index, net of the Bank's stock; another portion is conditioned on the minimum weighted efficiency ratio of the Bank not exceeding 62 percent, all calculated over three years, as aforesaid. According to the compensation policy, if the variable compensation is higher than 40 percent of the annual fixed bonus, a uniform mechanism of deferral whereby half (50 percent) 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. 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).
E. Description of the ways in which the Bank links the compensation to longer-term performance	
Discussion of the Bank's policy regarding the deferral and vesting of variable compensation, and whether the deferred part of the variable bonus varies among employees or groups of employees; description of the factors determining the said part and their relative weight.	See above.

Discussion of the Bank's policy and criteria for adjusting a deferred compensation before and after vesting by means of a clawback arrangement	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). 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).

F. Description of the different forms of variable compensation used by the Bank and considerations for using them

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.	Pursuant to Directive 301A, the variable compensation in a given year for each of the Bank's key employee shall not exceed 100 percent of the fixed compensation of that key employee during that year. 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&L), excluding special bonuses. 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 percent of the fixed compensation of that employee during that year.
In exceptional cases, where the Bank has determined that the maximum variable compensation may exceed 100 percent 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 percent 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 compensation component, can be paid by way of shares and/or share-based instruments.
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 compensation - including the deferred variable compensation component - can be paid by way of shares and/or share-based instruments 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.

Compensation Awarded during the Financial Year (REM1)

			A	B	A	B
			For the year ended December 31			
			2021		2020	
			Senior officers	Other key employees	Senior officers	Other key employees
	Compensation amount		In NIS millions			
1	Fixed compensation	No. of employees	**22**	**111**	21	115
2		Total fixed compensation	**31**	**87**	32	91
3		Of which: Cash-based	**31**	**87**	32	91
9	Variable compensation	No. of employees	**17**	**93**	7	17
10		Total variable compensation	**11**	**34**	1	2
11		Of which: Cash-based	**8**	**25**	1	2
16		Of which: Deferred	**4**	**9**	-	-
17	Total compensation		**42**	**121**	33	93

Special Payments (REM2)

	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**

	For the year ended December 31 2020					
	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	-	-	2	1	4	2
Other key employees	-	-	-	-	1	-[(a)]

(a) Amount less than NIS 500 thousand.

Deferred Compensation (REM3)

Deferred Compensation (REM3)	A	E
	For the year ended December 31 2021	
	Total payable compensation amount of the outstanding compensation	Total amount of the deferred compensation paid during the reporting year
	In NIS millions	
Senior officer		
Cash	**4**	-[(a)]
Shares	-	
Cash-based instruments	-	-
Other	-	-
Other key employees		
Cash	**9**	-[(a)]
Shares	-	
Cash-based instruments	-	-
Other	-	-
Total	**13**	-[(a)]

Deferred Compensation (REM3)	A	E
	For the year ended December 31 2020	
	Total payable compensation amount of the outstanding compensation	Total amount of the deferred compensation paid during the reporting year
	In NIS millions	
Senior officer		
Cash	-	-[(a)]
Shares	-	-
Cash-based instruments	-	-
Other	-	-
Other key employees		
Cash	-[(a)]	-[(a)]
Shares	-	-
Cash-based instruments	-	-
Other	-	-
Total	-[(a)]	-[(a)]

(a) Amount less than NIS 500 thousand.

The data included in the tables are presented on an accounting basis

Additional Information on Compensation

For more information regarding the compensation policy, please see Note 23 to the financial Statements as at December 31 2021.
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 2021.

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[a]	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[b]	Not subject to capital requirements nor to deductions from the capital basis
	In NIS millions					
Assets						
Cash and deposits with banks	**197,402**	**196,852**	**550**	**-**	**-**	**-**
Securities[c]	**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 investees	**1,113**	**935**	**-**	**-**	**-**	**178**
Buildings and equipment	**2,720**	**2,720**	**-**	**-**	**-**	**-**
Intangible assets and goodwill	**14**	**-**	**-**	**-**	**-**	**14**
Assets in respect of derivatives[d]	**14,027**	**-**	**14,027**	**-**	**9,211**	**-**
Other assets	**7,985**	**7,985**	**-**	**-**	**-**	**-**
Held-for-sale assets	**-**	**-**	**-**	**-**	**-**	**-**
Total assets	**656,454**	**627,260**	**25,098**	**2,213**	**12,333**	**192**
Liabilities						
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 in respect of derivatives[d]	**15,551**	**-**	**15,551**	**-**	**15,289**	**-**
Other liabilities	**18,202**	**-**	**-**	**-**	**-**	**18,202**
Held for sale liabilities	**-**	**-**	**-**	**-**	**-**	**-**
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.

(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[(a)]	C	D	E	F	G
	December 31 2020					
		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[(b)]	Not subject to capital requirements nor to deductions from the capital basis
	In NIS millions					
Assets						
Cash and deposits with banks	136,194	135,169	1,025	-	-	-
Securities[(c)]	92,297	83,877	3,966	1,951	4,033	-
Securities borrowed or purchased under reverse repurchase agreements	3,019	-	3,019	-	-	-
Loans to the public	300,631	297,188	3,443	-	-	-
Loan loss provision	(5,290)	(5,290)	-	-	-	-
Loans to the public, net	295,341	291,898	3,443	-	-	-
Loans to governments	632	632	-	-	-	-
Investments in associates	795	645	-	-	-	150
Buildings and equipment	2,932	2,932	-	-	-	-
Intangible assets and goodwill	15	-	-	-	-	15
Assets in respect of derivatives[(d)]	15,252	-	15,252	-	15,033	-
Other assets	9,558	9,432	-	-	-	126
Held-for-sale assets	-	-	-	-	-	-
Total assets	556,035	524,585	26,705	1,951	19,066	291
Liabilities						
Deposits by the public	447,031	-	-	-	-	447,031
Deposits by banks	15,143	-	-	-	-	15,143
Deposits by the Israeli government	208	-	-	-	-	208
Securities loaned or sold under agreements to repurchase	354	-	-	-	-	354
Bonds, capital notes and subordinated bonds	16,303	-	-	-	-	16,303
Liabilities in respect of derivatives[(d)]	17,315	-	17,315	-	16,772	-
Other liabilities	21,586	-	-	-	-	21,586
Held for sale liabilities	-	-	-	-	-	-
Total liabilities	517,940	-	17,315	-	16,772	500,625

(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.

(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
	2021	2020	
	In NIS millions		
Assets			
Cash and deposits with banks	**197,402**	136,194	-
Securities[1]	**86,927**	92,297	-
[1]Of which: investments in equity of financial corporations which do not exceed 10% of the financial corporation's equity capital	**688**	690	14
[1]Of which: other securities	**86,239**	91,607	-
Loans to the public	**347,391**	300,631	-
Loan loss provision[1]	**(4,512)**	(5,290)	-
[1]Of which: collective loan loss provision included in Tier 2[2]	**(3,995)**	(3,792)	12
[1]Of which: loan loss provision not included in regulatory capital	**(517)**	(1,498)	-
Loans to the public, net	**342,879**	295,341	-
Loans to governments	**940**	632	-
Investments in associates[1]	**1,113**	795	-
[1]Of which: investments in the capital of financial corporations exceeding 10% of the financial corporation's equity capital	**133**	136	15
[1]Of which: goodwill	**164**	135	6
Buildings and equipment	**2,720**	2,932	-
Other assets[1]	**7,985**	9,558	-
[1]Of which: deferred tax assets[2]	**5,857**	6,258	-
[2]Of which: deferred tax assets excluding those attributed to timing differences	**-**	-	8
[2]Of which: deferred tax assets attributed to timing differences, whose total exceeds 10% of Common Equity Tier 1 capital	**1,686**	2,478	10
[2]Of which: deferred tax assets attributed to timing differences, whose total does not exceed 10% of Common Equity Tier 1 capital	**4,171**	3,780	16
[2]Of which: other deferred tax assets pursuant to the transitional provisions, efficiency plan and average yield curve	**-**	-	13
[1]Of which: additional other assets	**2,128**	3,300	-
Intangible assets and goodwill[1]	**14**	15	-
[1]Of which: goodwill	**14**	15	6
Securities borrowed or purchased under reverse repurchase agreements	**2,447**	3,019	-
Assets in respect of derivatives	**14,027**	15,252	-
Total assets	**656,454**	556,035	-

	December 31		References to components of regulatory capital
	2021	2020	
	In NIS millions		
Liabilities and capital			
Deposits by the public	**537,269**	447,031	-
Deposits by banks	**25,370**	15,143	-
Deposits by governments	**300**	208	-
Bonds and subordinated notes[1]	**15,428**	16,303	-
[1]Of which subordinated notes not recognized as regulatory capital	**9,356**	7,865	-
[1]Of which: subordinated notes recognized as regulatory capital[2]	**6,072**	8,438	-
Of which: eligible as regulatory capital components[2]	**5,848**	5,930	11A
[2]Of which: eligible as regulatory capital components and subject to transitional provisions	**224**	2,508	11
Other liabilities[1]	**18,202**	21,335	-
[1]Of which: collective loan loss provision included in Tier 2[2]	**420**	341	12
Securities borrowed or purchased under reverse repurchase agreements	**2,282**	605	-
Liabilities in respect of derivative instruments[1]	**15,551**	17,315	-
[1]Of which: in respect of credit risk	**23**	13	9
Total liabilities	**614,402**	517,940	-
Non-controlling interests[1]	**442**	431	-
[1]Of which: non-controlling interests attributable to Common Equity Tier 1 capital	**300**	295	4
[1]Of which: non-controlling interests attributable to Tier 2 Capital	**81**	67	5
Total capital attributed to shareholders of the banking corporation[1]	**41,610**	37,664	-
[1]Of which: ordinary share capital	**7,041**	7,041	1
[1]Of which: premium for ordinary shares	**184**	184	1
[1]Of which: retained earnings	**37,209**	33,178	2
[1]Of which: unrealized gains (losses) from adjustment of available-for-sale securities at fair value	**880**	1,155	3
[1]Of which: net losses from adjustments from translation of financial statements	**(273)**	(236)	3
[1]Of which: other reserves	**43**	71	3
[1]Of which: gains (losses) from adjustments in respect of employee benefits included in regulatory capital	**(3,474)**	(3,729)	3
Total shareholders' equity	**42,052**	38,095	-
Total liabilities and capital	**656,454**	556,035	-

(a) For more information, see Note 36F to the Financial Statements as at December 31 2021.

Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements (LI2)

		A	B	C	D	E
		December 31 2021				
			Items subject to:			
		Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk 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[d]	**165,032**	**52,789**	**-**	**16,204**	**-**
5	Differences arising from differences in offsetting rules, except those already included in line 2[a]	**4,825**	**-**	**-**	**4,825**	**-**
6	Differences arising from provisions[b]	**3,995**	**3,995**	**-**	**-**	**-**
7	Other adjustments[c]	**(13,032)**	**217**	**-**	**-**	**(13,249)**
8	Exposure amounts taken into account for regulatory purposes	**801,531**	**684,261[e]**	**2,213**	**30,576**	**(16,205)**

		A	B	C	D	E
		December 31 2020				
			Items subject to:			
		Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
		In NIS millions				
1	Total assets in accordance with the regulatory consolidation basis (according to the LI1 disclosure format)	555,744	524,585	1,951	26,705	19,066
2	Total liabilities in accordance with the consolidation basis (according to the LI1 disclosure format)	17,315	-	-	17,315	16,772
3	Total amount according to the regulatory scope of consolidation, net	538,429	524,585	1,951	9,390	2,294
4	Off balance sheet amounts[d]	147,585	136,128	-	16,204	-
5	Differences arising from differences in offsetting rules, except those already included in line 2[a]	1,584	-	-	1,584	-
6	Differences arising from provisions[b]	4,540	4,540	-	-	-
7	Other adjustments[c]	171	436	-	-	(265)
8	Exposure amounts taken into account for regulatory purposes	692,309	665,689[e]	1,951	27,178	2,029

Explanations of Differences between Accounting and Regulatory Exposures Amounts (LIA):

(a) 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.

(b) 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.

(c) 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.

(d) Addition of off-balance sheet items that constitute credit risk (business lines and guarantees), including components of potential future exposure to derivatives volatility.

(e) The difference between the credit exposure amounts is primarily due to the 250 percent 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.

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 2021, 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 2021.

Description of Securitization Exposures

Securitization Exposures in the banking book[a] (SEC1)

		A	B	C	E	F	G	I	J	K
		December 31 2021								
		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:	-	-	-	-	-	-	**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	B	C	E	F	G	I	J	K
		December 31 2020								
		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:	-	-	-	-	-	-	6,636	-	6,636
2	Housing mortgage	-	-	-	-	-	-	6,616	-	6,616
3	Credit cards	-	-	-	-	-	-	-	-	-
4	Other retail exposures	-	-	-	-	-	-	20	-	20
6	Wholesale (total), of which:	-	-	-	-	-	-	2,625	-	2,625
7	Loans to corporations	-	-	-	-	-	-	1,904	-	1,904
8	Commercial mortgage	-	-	-	-	-	-	721	-	721
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
		December 31 2021								
		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	-	-	-	-	-	-	-	-	-

		A	B	C	E	F	G	I	J	K
		December 31 2020								
		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:	-	-	-	-	-	-	38	-	38
2	Housing mortgage	-	-	-	-	-	-	36	-	36
3	Credit cards	-	-	-	-	-	-	-	-	-
4	Other retail exposures	-	-	-	-	-	-	2	-	2
6	Wholesale (total), of which:	-	-	-	-	-	-	42	-	42
7	Loans to corporations	-	-	-	-	-	-	42	-	42

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 2021 and December 31 2020, 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[a] (SEC4)

		A	B	C	D	E	H	I	L	M	P	Q
		December 31 2021										
		Exposure values by RW rate[a]					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[1]	**2,024**	**178**	**11**	-	-	**2,213**	-	**505**	-	**63**	-
3	[1]Of which: securitization[2]	**2,024**	**178**	**11**	-	-	**2,213**	-	**505**	-	**63**	-
4	[2]Of which: retail basis	**343**	**49**	**11**	-	-	**403**	-	**104**	-	**13**	-
5	[2]Of which: wholesale	**1,681**	**129**	-	-	-	**1,810**	-	**401**	-	**50**	-
6	[1]Of which: re-securitization[2]	-	-	-	-	-	-	-	-	-	-	-
7	[2]Of which: senior	-	-	-	-	-	-	-	-	-	-	-

		A	B	C	D	E	H	I	L	M	P	Q
		December 31 2020										
		Exposure values by RW rate[a]					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	1,787	140	25	-	-	1,952	-	452	-	58	-
2	Traditional securitization[1]	1,787	140	25	-	-	1,952	-	452	-	58	-
3	[1]Of which: securitization[2]	1,787	140	25	-	-	1,952	-	452	-	58	-
4	[2]Of which: retail basis	259	-	-	-	-	259	-	52	-	7	-
5	[2]Of which: wholesale	1,528	140	25	-	-	1,693	-	400	-	51	-
6	[1]Of which: re-securitization[2]	-	-	-	-	-	-	-	-	-	-	-
7	[2]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