ANNUAL REPORT 2022

100 years
MIZRAHI TEFAHOT

Moving Forward While Staying Personal,

For 100 Years Now.

This report does not constitute a Periodic Report pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970. The Israel Securities Authority's MAGNA website also includes the following reports: The periodic report and the financial statements in XBRL format, the actuarial assessment regarding employee rights at the Bank, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these financial statements, including XBRL format, the Bank’s "solo" financial statements, a detailed risk management report and additional supervisory information, as stated, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports. In accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013, the website also includes accessible reports.

Mizrahi Tefahot Bank

Annual Report

2022

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

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The Bank has been granted permission by the Supervisor of Banks to issue its annual financial statements on consolidated basis only.
Note 37 to the financial statements provides a summary of the Bank's solo financial statements.
A booklet with bank information is available on request or on the Bank website at:
www.mizrahi-tefahot.co.il>> About the Bank >> Investor Relations >> Financial Information

From the Chairman of the Board of Directors

On behalf of the Bank Board of Directors, I hereby present you with Mizrahi Tefahot's 2022 financial statements.

This year saw significant changes in the macro-economic environment in Israel and across the world. After a decade of low inflation and near-zero real interest rates, inflation has picked up and the Bank of Israel, as other central banks around the world, started a continuous move to raise interest rates, in order to curb the inflation outbreak and to return the Consumer Price Index to its normal trajectory. Thus, over a short period of only three quarters, the Bank of Israel interest rate increased from 0.1% to 3.25% by the end of 2022. Year to date in 2023, the interest rate was increased twice more, and currently it is at 4.25%.

The sharply higher 'cost of money' and financing costs posed a significant challenge to households and to the business sector in general. Mizrahi Tefahot, being a bank that adopted a human, personal service concept, has its bankers in close contact with Bank customers, providing them with a diverse toolbox and personalized solutions, in order to help them face this complex reality in an optimal manner. At the same time, the Bank conducts intensive monitoring designed to identify difficulties and defaults early. These efforts would continue even more intensely in 2023, in order to reduce the risk to the bank and to its customers, in a reality of high interest rates and higher uncertainty in the market.

In 2022, the residential housing market saw significant price increases (by 19%) and record-breaking business in the mortgage market, with annual originations exceeding NIS 118 billion, slightly higher than 2021 figures. Mizrahi Tefahot continues to maintain its leadership position in the market, despite increased competition and reduced scope of activity in the final months of the year – due to high prices and interest rate increases. Thanks to the professional expertise of our mortgage bankers, our extensive branch network and diverse, innovative digital tools offered by Mizrahi Tefahot in the mortgage sector, allowing customers to conduct most of the mortgage process by themselves, closely assisted by a human, personal banker.

The merger of Union Bank into Mizrahi Tefahot has been successfully concluded, on schedule, by end of 2022. Despite the significant complexity of all aspects of Union Bank operations: human, business, operating and technology aspects, the teams at both banks were up to the challenge, in outstanding and commendable fashion. Unlike mergers in other sectors, where business operations are transferred by computer and unilaterally, conversion of Union Bank customers to Mizrahi Tefahot was done in human, individual fashion, with Union Bank consenting to transition to Mizrahi Tefahot, with personal treatment and human support throughout the transition process.

Other than increasing the Bank's customer base, following the merger Mizrahi Tefahot also onboarded unique business operations of Union Bank, with regard to consumer credit and nostro management, which should help Mizrahi Tefahot Group to develop and diversify its revenue sources, as part of its growth engines for the coming years.

In 2022, the Bank continues to establish itself as a leader in financing of infrastructure, energy and transportation mega-transactions, as well as in large, complex credit transactions. This activity would continue over the coming year, as part of the effort to expand the Bank's business credit portfolio, and to bolster its competitive position on business financing in general and for mega-transactions in particular.

The Bank also acted to empower the values of humanity and fairness in its service concept, based on the Hybrid Banking model, with optimal combination of a human, personal banker at the branch and a range of advanced digital channels. As in previous years, the survey of banking system customers conducted by the Bank of Israel in 2022 among households and small businesses, Mizrahi Tefahot was a stand-out, with high satisfaction ratings from its customers.

The Bank continues to closely monitor the macro-economic developments and changes to its operating environment. In recent months there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this stage it is too early to assess the developments and impact of these events on Israel's economy.

Concurrently, The Bank constantly monitors the competitive challenges within the banking system and elsewhere, while developing unique solutions that would allow the Bank to safeguard its distinction and uniqueness, to enhance its competitive capacity in diverse operating segments and to maintain its growth momentum of the past years.

I wish to take this opportunity to express my appreciation and heartfelt gratitude, in my name and on behalf of all Board members, to our thousands of dedicated employees and managers, for their outstanding dedication to the Bank and to our customers, and for their significant contribution to the Bank's achievements over the past year. There can be no doubt that out outstanding human capital is the primary engine for the continued success of Mizrahi Tefahot.

I also wish to thank our loyal customers and all of our stakeholders, for the considerable trust they place in us. We shall continue to conduct ourselves with strict transparency and fairness toward them, based on the values and the Code of Ethics which the Bank champions, as a mainstay of our organizational culture.

Sincerely yours,
Moshe Vidman
Chairman of the Board of Directors
Mizrahi Tefahot

Bank Mizrahi Tefahot

Report of the Board of Directors and Management

2022

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List of tables included in the Report of the Board of Directors and Management

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on March 13, 2023, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2022. This report is submitted to the General Meeting of Shareholders.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives and guidelines of the Supervisor of Banks.

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States (see also Note 1 to these financial statements).

The Report of the Board of Directors and Management and the 2022 financial statements are prepared in the layout stipulated by the Supervisor of Banks. After the Notes to the financial statements you will find a chapter on corporate governance, audit, more information about the Bank and its management, as well as appendixes to the annual report.

Further additional information to the financial statements is available on the Bank website:

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

This additional information of which:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Notes to the financial statements including Bank separate data (solo), upon request.

The Bank website also provides additional supervisory information, including details of equity instruments issued by the Bank, as well as an XBRL-formatted file of the financial statements.

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

Forward-looking information

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

Actual Bank results may materially differ from those included in the forward-looking information, due to many factors including, inter alia, changes to capital markets in Israel and overseas, macro-economic changes, geo-political changes, changes to legislation and regulation and other changes not within the Bank's control, which may result in assessments not materializing and/or in changes to business plans.

Forward-looking information typically includes words or expressions such as: "we assume", "expected", "forecasted", "estimate", "intend", "plan", "may change" and similar expressions, as well as nouns such as: "plan", "objectives", "desire", "should", "may", "will be". Such forward-looking expressions involve risk and uncertainty, as they are based on current Bank assessments with regard to future events, which include the following: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; expectation of changes and developments in the currency markets and the capital markets, forecasts related to other factors affecting the exposure to financial risks, forecasts of changes in the financial stability of borrowers, the public’s preferences, changes to legislation and supervisory regulations, the behavior of competitors, the Bank’s image, technological developments and human resources developments.

The information presented below relies, inter alia, on publications from the Central Bureau of Statistics, Ministry of Finance, Bank of Israel and others who publish data and estimates with regard to capital markets in Israel and overseas, and on forecasts and future estimates on various matters, as noted above, and any anticipated events or developments may fail to materialize, in whole or in part.

Overview, objectives and strategy

This chapter describes the Bank, its operating areas, performance, risks to which the Bank is exposed and its targets and strategy.

Condensed financial information and key performance indicators for the Bank Group

	For the year ended December 31				
	2022	2021	2020	2019	2018
					NIS in millions
Statement of profit and loss – key items					
Interest revenues, net	10,240	7,685	5,820	5,340	4,922
Non-interest financing revenues	754	401	221	357	445
Commissions and other revenues	2,674	2,234	1,892	1,609	1,522
Total revenues	**13,668**	**10,320**	**7,933**	**7,306**	**6,889**
Expenses with respect to credit losses	532	(278)	1,050	364	310
Operating and other expenses	6,173	5,568	4,279	3,988	(1)4,384
Of which: Payroll and associated expenses	4,029	3,536	2,644	2,562	2,407
Pre-tax profit	6,963	5,030	2,604	2,954	2,195
Provision for taxes on profit	2,356	1,730	903	1,029	922
Net profit(2)	**4,472**	**3,188**	**1,610**	**1,842**	**(1)1,206**

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
								NIS in millions
Statement of profit and loss – key items								
Interest revenues, net	2,952	2,691	2,453	2,144	1,958	2,001	2,035	1,691
Non-interest financing revenues	198	263	176	117	83	63	66	189
Commissions and other revenues	569	579	574	952	596	551	544	543
Total revenues	**3,719**	**3,533**	**3,203**	**3,213**	**2,637**	**2,615**	**2,645**	**2,423**
Expenses with respect to credit losses	191	155	107	79	(15)	(36)	(240)	13
Operating and other expenses	1,814	1,529	1,442	1,388	1,555	1,339	1,333	1,341
Of which: Payroll and associated expenses	1,194	1,002	924	909	960	863	843	870
Pre-tax profit	1,714	1,849	1,654	1,746	1,097	1,312	1,552	1,069
Provision for taxes on profit	580	635	572	569	390	442	540	358
Net profit(2)	**1,087**	**1,178**	**1,053**	**1,154**	**679**	**845**	**988**	**676**

(1) Operating and other expenses in 2018 included a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Net profit for the Group in 2022 amounted to NIS 4,472 million, compared to net profit of NIS 3,188 million in 2021 – an increase by 40.3%. Net profit in 2022 reflects return on equity of 20.1%, compared to 15.8% in 2021.

Group net profit in the fourth quarter of 2022 amounted to NIS 1,087 million, compared to NIS 679 million in the corresponding period last year – an increase by 60.1%. Net profit in the fourth quarter of 2022 reflects annualized return on equity of 18.5%, compared to 12.9% in the corresponding period last year.

The following major factors affected Group profit in 2022 compared to 2021:

- Financing revenues in 2022 increased by 36.0% over the corresponding period last year, primarily due to increase by 13.3% in loans to the public compared to December 31, 2021, to impact of the increase in CPI by 5.3% in the first nine months of this year, compared to increase by 2.4% in the corresponding period last year, and to increase in the Bank of Israel interest rate (as from April 2022) and in the US Federal Reserve interest rate (as from March 2022).

  For more information see "Analysis of development of financing revenues from current operations" below.
- Commission revenues in 2022 increased by 5.4% over the corresponding period last year, due to increased business volume.
- Other revenues in 2022 include capital gain from sale of assets (recorded in the first quarter of 2022) amounting to NIS 371 million. For more information see chapter "Significant Events in the Bank Group's Business" below.
- Expenses with respect to credit losses in 2022 amounted to NIS 532 million, primarily due to increase in the group-based provision due to growth of the Bank's commercial loan and residential mortgage portfolio, reflecting the higher market interest rate. In the corresponding period last year, the Bank recognized revenues with respect to decrease in provision for credit losses amounting to NIS 278 million, due to decrease in the group-based provision, against the background of improved macro-economic data, recovery from the Corona Virus crisis and decrease in loan amount subject to repayment deferral due to the Corona Virus crisis.
- Total operating and other expenses increased by 10.9%, primarily due to adjustment of variable remuneration items under Payroll Expenses, due to the Bank's financial results and non-recurring expenses with respect to the Union Bank merger.

For other effects, see each of the operating expense components below.

Multi-period profit data shows:

- Average annual growth rate in total revenues of 18.7%. The increase in revenues was due to strong growth over the years and to the Union Bank transaction.
- The growth rate in expenses was slower than for revenues, at 8.9%, due, inter alia, to alignment of payroll expenses with respect to variable remuneration components and to the Union Bank transaction.

Condensed financial information and key performance indicators for the Bank Group – continued

	As of December 31					
	2022	2021	2020	2019	2018	2017
						NIS in millions
Balance sheet – key items						
Total assets	428,292	392,271	360,140	273,244	257,873	239,572
Loans to the public, net	307,472	271,428	245,525	204,708	194,381	181,118
Cash and deposits with banks	93,673	95,267	86,570	51,672	45,162	41,130
Securities	15,144	15,033	17,290	10,113	11,081	10,133
Buildings and equipment	1,503	1,734	1,743	1,457	1,424	1,403
Deposits from the public	344,514	307,924	284,224	210,984	199,492	183,573
Bonds and subordinated notes	33,287	38,046	33,446	33,460	30,616	29,923
Deposits from banks	6,994	6,992	3,779	714	625	1,125
Shareholders' equity[(1)]	23,780	20,770	18,804	16,033	14,681	13,685

Data of the multi-period balance sheet indicate continued growth in Bank operations.

The average annual growth in 2018-2022[(1)] amounted to:

Total assets –	12.3%
Loans to the public, net –	11.2%
Deposits from the public –	13.4%
Shareholders' equity –	11.7%

The average annual growth in 2021-2022, after achievement of control over Union Bank, was:

Total assets –	9.1%
Loans to the public, net –	11.9%
Deposits from the public –	10.1%
Shareholders' equity –	12.5%

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Estimated average growth rate in 2018-2022, excluding Union Bank transaction: Balance sheet total 9.7%, loans to the public, net 9.3%, deposits from the public 10.8%, shareholder's equity 9.9%.

Key financial ratios (in percent)

	For the year ended December 31				
	2022	2021	2020	2019	2018
Key performance benchmarks					
Net profit return on equity(1)	(11)20.1	15.8	9.5	11.9	(9)8.5
Net profit return on risk assets(2)	1.91	1.53	0.89	1.17	(10)0.83
Return on average assets	1.08	0.85	0.53	0.70	(10)0.49
Deposits from the public to loans to the public, net	112.0	113.4	115.8	103.1	102.6
Ratio of Tier I equity to risk components	9.94	10.04	10.04	10.14	10.01
Leverage ratio(3)	5.42	5.18	5.19	5.55	5.42
Liquidity coverage ratio (Quarterly)(4)	118	125	133	121	116
Net stable funding ratio(5)	115	119			
Ratio of revenues(6) to average assets	3.32	2.75	2.63	2.76	2.79
Cost-income ratio – operating expenses to total revenues(7) (Cost Income Ratio)	(11)45.2	54.0	53.9	54.6	(9)63.6
Basic net earnings per share (in NIS)	17.47	12.47	6.70	7.86	5.17
Key credit quality benchmarks					
Ratio of balance of provision for credit losses to total loans to the public	0.93	0.77	0.98	0.82	0.80
Balance of provision for credit losses, including estimated credit losses in balance of loans to the public at Union Bank, as percentage of loans to the public	0.93	0.85	1.11		
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	0.87	0.95	1.18	1.36	1.23
Expenses with respect to credit losses to loans to the public, net for the period	0.17	(0.10)	0.43	0.18	0.16
Ratio of net accounting write-offs to average loans to the public	0.09	0.05	0.12	0.11	0.11
Other information					
Share price (in NIS) as of December 31	113.90	120.00	74.25	92.00	63.14
Dividends per share (in Agorot)(8)	366	482	75	239	106
Average employee headcount for the Group	(12)7,636	7,420	6,684	6,373	6,285
Ratio of net interest revenues to average assets	2.48	2.05	1.93	2.02	1.99
Ratio of commissions to average assets	0.50	0.52	0.55	0.58	0.60

Financial ratios indicate as follows:

- Net profit return on equity in this year was 20.1%, due to increased business volume, higher Bank of Israel interest rate and higher Consumer Price Index.
- The ratio of Tier I capital to risk components increased to 9.94%. The minimum ratio required of the Bank is 9.60%.
- The cost-income ratio in 2022 reached 45.2%.
- The Bank effectively manages its compliance with regulatory targets stipulated for capital adequacy, liquidity and leverage.

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

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Net profit to total average risk assets.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(5) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. The requirement to calculate and maintain a minimum net stable funding ratio and the required public disclosure apply as from December 31, 2021.
(6) Interest revenues, net and non-interest revenues.
(7) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(8) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(9) Net profit return on equity and cost-income ratio for 2018 were affected by a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.
Net profit return on equity and cost income ratio for the Bank in 2018, excluding provisions with respect to the investigation and accounting for bonus provisions that would have matched the business operations profitability and resulting tax expenses in 2018 were: Return on equity – 11.6%. Cost-income ratio: 57.2%.
(10) Return on risk assets and return on average assets in 2018 were affected by the provision with respect to the investigation by the US DOJ, as noted above, a decrease by 0.30 and 0.18 percentage points, respectively.
(11) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 was 19.0% and the cost-income ratio was 46.4%.
(12) Data through December 31, 2022 include 373 former Union Bank employees whose employment was terminated in early 2023.

Environment, society and governance

Material aspects of environment, society and governance (ESG) at the Bank, which integrate with Bank business objectives and current operations

The Group incorporates ESG aspects in its business strategy, maintains regular communication with all stake holders and manages diverse risks arising from its operations from environments, social and corporate governance aspects. In 2022, the Group formulated policy on identification, management and control of ESG risk at the Bank.

The Board of Directors supervises ESG issues through Board committees or by the Board of Directors Planum, including: Climate change, environmental and social risks in lending and investments, handling customer complaints, financial inclusion and so forth. The Board of Directors and the Risks Management Committee discuss the Bank's ESG risks as part of the quarterly Risks Document. Moreover, the Risks Management Committee and the Board of Directors receive the environmental risks and climate risks report and discuss ESG risks semi-annually.

In 2021, the Bank established a steering committee, headed by the Manager, Human Capital, Resources and Operations Division and composed of different division managers, designed to lead policy, activity, control and reporting as part of promoting ESG across all Bank operations, for optimal management of identified ESG risks.

The Bank recognizes its impact on the environment and on society, and is committed to acting to reduce the impact of its activities on climate change from credit, investments and Bank operational aspects. The Bank leads major projects to promote a green environment. The Bank provides loans for development of new technologies for generating energy, solar energy generating facilities, projects in public transportation, renewable energy and so forth. The Bank also assists several projects that promote reduction of greenhouse gas emissions to maintain cleaner air.

The Bank also has a unique service concept, which places the personal banker in the branch at the center of the customer relationship, complemented by a technological range of advanced digital channels. This service concept optimally serves customer needs, as indicated by satisfaction surveys regularly conducted by the Bank, while accounting for unique attributes of customers from different segments and backgrounds in Israeli society. Thus the Bank is able to route value propositions to specific customers. The Bank sees the great importance of approaching diverse customers and segments in Israeli society and strives to create products and services in response to various customer needs.

For more information about Bank activity, see the ESG Report to be issued by the Bank.

Key ESG benchmarks (as of December 31):

	2022	2021	2020
Social			
Number of branches for the Group	204	225	232
Number of Group employees	7,588	7,646	7,585
Loans to social products (NIS in millions)	2,642	1,087	4,530
Investment in the community (NIS in millions)	20.4	17.2	16.4
Employee volunteer work hours (in thousands)	28.2	20.0	15.6
Small and micro suppliers as percentage of all Group suppliers	68%	68%	72%
Women as percentage of all employees	65%	64%	64%
Percentage of female senior executives (VP or higher)	42%	42%	36%
Percentage of Bank employees from under-employed demographics(1)	15%	15%	14%
Estimated percentage of employees recruited from under-employed demographics(1)	17.6%	13.0%	5.5%
Average training hours per employee	43	41	31
Investment in employee training (NIS in millions)	72.6	57.4	43.3
Environmental			
Reduction in carbon footprint	17.8%	(2)5.3%	(2)13.6%
Reduce energy intensity	13%	4.0%	3.9%
Emissions saved due to environmental initiatives of the Bank (tonnes of CO_2)	501	614	325
Total emissions saved due to environmental initiatives of the Bank to reduce energy consumption (tonnes of CO_2)	398	502	305
Loans to environmental products (NIS in millions)	8,000	2,025	775

(1) Under-employed demographics – Estimated in conformity with definition of the Equal Employment Opportunity Commissioner in the Ministry of Economics and Industry, for recruitment of employees from demographics with lower employment rates, such as employees with disabilities, employees of Ethiopian origin, Jewish Orthodox or Arab society and older employees.

(2) Reclassified.

Bank Group and its operating areas

Bank Mizrahi Tefahot Ltd. (hereinafter: "the Bank") is a public company and was among the first banks established in the State of Israel. The Bank was incorporated on June 6, 1923 under the name Bank HaMizrahi Ltd. and holds a banking license. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In 1995, the Bank privatization process started, with control of the Bank transferred to Wertheim and Ofer Groups – this process was completed in 1997. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd.

For more information about the controlling shareholders of the Bank, see chapter "Corporate governance, audit, other information about the Bank and its management (controlling shareholders)" in this annual report.

Since 2008, Mizrahi-Tefahot Group ("the Group") also includes Bank Yahav for Government Employees Ltd. (with the Bank holding 50% of all rights and means of control over Bank Yahav) and included Union Bank (which was acquired in a transaction that closed in September 2020) whose merger with and into the Bank was completed on December 29, 2022. The Group operates in Israel and overseas, and is engaged in commercial banking (business and retail) as well as in mortgage activities in Israel, and takes part in syndication transactions, through a nation-wide network of 204 branches, business centers and affiliates. Furthermore, business customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via two bank affiliates (in the UK and in the USA).

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Management of nostro investments in bonds and real investments, consultancy for capital market activities, distribution of mutual funds, management of securities portfolios for customers, pension advisory service, trust services, provision of registration services for securities listed on the stock exchange in Israel, operation of provident funds and insurance incidental to mortgages. The Bank Group is also engaged in credit operation.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2022):

Loans to the public	21.4%
Deposits from the public	18.4%
Total assets	18.2%
Shareholder's equity	15.3%

Major risk factors

Below are definitions of major risks to which the Bank is exposed in its operations:

Credit risk – the risk that a borrower or counter party of the Bank would not meet their obligations to the Bank. Credit concentration risks are due to over-exposure to a borrower or to a borrower group and to economic sectors.

Market risk – the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest risk – The risk to Bank profit and to Bank economic capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes to interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Liquidity risk – risk to profit and stability of the banking corporation due to being unable to provide for its liquidity needs, i.e. risk due to uncertainty about resource availability and the capacity to realize assets in a specified time at a reasonable price.

Operational risk – the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events. This risk is inherent in all products, activities, processes and systems. Addressing operational risk also includes information security and cyber defense risk, IT risk and legal risk, as follows:

Information security and cyber defense risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

IT risk – the risk of failure in information and/or in information / operational systems of the Bank, as well as inappropriate support to provide the services and business processes required by the Bank to achieve its business targets.

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties).

Compliance and regulatory risk – The risk of imposition of sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions (such as: Statutory provisions, regulation, standards and commonly expected corporate behavior). The Bank is also exposed to business implications due to changes in regulatory directives. Compliance risk includes conduct risk, which is the risk of impact to Bank trustworthiness in the opinion of customers, investors, suppliers and all stake holders, and may even impact public trust in the entire banking system; this risk is bank-wide and is based on implementation of basic values of equity, fairness and transparency.

Cross-border risk – the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank customers in contravention of any statutory provisions.

AML and terror financing risk – the risk of financial loss (including due to legal proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Reputational risk – the risk of negative perception by current customers, potential customers, suppliers, shareholders, investors or regulators, which may negatively impact the Bank's capacity to maintain or create business relations, and which may impact access to funding sources. That is to say, risk to corporate earnings, stability or capacity to achieve its targets due to impact to reputation which may arise from practices at the corporation, from its financial standing or from negative publicity (whether true or false).

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment in which the Bank operates. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned.

For more information about major and emerging risks, see chapter "Risk events" below.
For more information, see chapter "Risks overview" and the 2022 Risks Report on the Bank website.

Business goals and strategy

Strategic plan

On April 26, 2021, the Bank's Board of Directors approved a strategic 5-year plan for 2021-2025, based on the following:

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

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

- Achieve in 2025, net profit return on equity attributable to equity holders of 14% on average equity, as well as double-digit, growing and stable return over the term of the strategic plan; these rates are based on the ratio of Tier I equity to risk components for the Bank at the minimum set by the Supervisor of Banks plus appropriate margin;
- Growth in bank operations to result in increased market share of the Bank in the Israeli banking system;
- Grow revenues at an annual average rate of 8% (although non-linear), while controlling the average annual expenses at a 5% growth rate (also non-linear) over the term of the new strategic plan;
- Maintain high operating efficiency and leverage economies of scale due to the Union Bank merger, to achieve a cost-income ratio lower than 50% in 2025.

Under the strategic plan, the Board of Directors shall monitor execution of the plan, in order to consider potential increase of the dividend rate, from 40% of net profit attributable to Bank shareholders, up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I capital to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

For more information about the strategic plan, see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

Significant developments in business operations

Business in the mortgage market increased slightly in 2022, with residential mortgage origination in the banking system amounted to NIS 118 billion, an increase by 1% over 2021 and by 50% over 2020. However, the pace of lending has slowed down since mid-2022, due to the higher interest rate environment – while in the first half loans were extended at an annual rate of NIS 139 billion, in the second half loans were extended at an annual rate of NIS 98 billion. Moreover, the higher interest rates resulted in more moderate volumes. The Bank maintains its leadership position in the mortgage market, in terms of both market share and public image, and to further bolster the expertise of its mortgage bankers. Over the past year, the Bank has maintained its leadership position in mortgages, while maintaining low risk features of loans: LTV ratio and repayment as percentage of borrower income.

The household segment is facing growing competition, both from within the banking system and from insurers and credit card issuers. The Bank's target is to increase its market share in the household segment, by expanding the customer base with a focus on specific target customers. Regulatory measures designed to increase competition in the household segment and to remove barriers to account movement between banks, provide an opportunity for recruiting more customers, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used hybrid banking platform and the LIVE branches to recruit new customers and improve service to current customers, while expanding the value proposition. Currently, the Bank is deploying an innovative CRM platform with advanced features, that allows bankers to adapt their service to customer needs more precisely and proactively.

Mortgage customers of the Bank provide potential for expanding the customer base for commercial activity. The Bank also strives to expand in other customer segments: the Arab segment, the Jewish Orthodox segment and retirees. The project of transitioning Union Bank customers and banking activity to Mizrahi Tefahot, which was successfully completed in late 2022, provides potential for increased business. Bank Yahav bolsters activity in the Group's retail segment, by expanding activity, including among salaried employees, while leveraging the capabilities of the new core banking system at Bank Yahav.

The Bank focuses its efforts on raising stable, diverse funding sources for various time horizons, from individual customers and from business customers, in order to further maintain appropriate liquidity ratios and in order to reduce the cost of funding sources required for its operations and thereby to improve its profitability. These efforts resulted in the Bank further expanding in 2022, by a significant measure, its retail deposits while maintaining high liquidity ratios.

The Bank's business strategy emphasizes significant expansion of the customer base and increasing its market share among small and medium business customers, while regularly assessing risk at customer level, at sector level and for the economy as a whole. The Bank faces the increased competition in these operating segments by increased marketing activity targeted at customers, by customer segmentation by occupation and needs, as well as an overview of their activity, and by expanding Bank activity in the State-backed fund for small and medium businesses. In order to expand Bank activity in the commercial banking segment, the Bank increased the number of branches focused on providing banking services to the business segments and expanded the number of business centers, while reinforcing the professional training of its staff and maintaining appropriate underwriting standards. This infrastructure would support further expansion of activity in this segment over the coming years.

In 2022, competition in providing banking and financial services to the business banking segment was affected by rapid growth of credit extended to large businesses. Moreover, competition in this segment has been affected in recent years by expanded operations of non-bank entities focused on providing large-scale credit for long terms. The Bank faces competition in this segment by relying on the advantage of its human capital and on knowledge and experience in providing professional service and in adapting banking solutions to customer needs. The Bank's business strategy in this segment is designed to maximize the economic potential of capital, by focusing on high-margin activities relative to the required capital. Concurrently, the Bank acts to leverage its professional advantage, by increased collaboration in consortia with other entities. The Union Bank merger contributes to improved competitiveness of Mizrahi Tefahot and to its capacity to lead and finance the largest transactions in the market.

The Bank continues to maintain high operational efficiency through, *inter alia*, re-organizing assets and optimizing the branch network, by opening branches at locations with potential for business growth and streamlining the existing branch network. In early 2021, the Bank resolved to move the responsibility for Bank branches in London and Los Angeles, from the Finance Division to the Corporate Division, so as to bolster the synergy between business activities in Israel and overseas. In 2022, work started on construction of the new Mizrahi Tefahot campus in Lod, which would house all Bank headquarters units. Project completion and relocation of the units are expected by 2025.

In February 2023, the Bank announced changes to its organizational structure, including dividing the Human Capital, Resources and Operations Division so that units of this division tasked with human capital and other resources would be under the Human Capital and Resources Division, while units tasked with Bank operations would be included in the Operations Arm to include, inter alia, back-office operations, engineering and banking processes. The Bank is also setting up an arm for enterprise-wide projects, that would be responsible for digital operations, integrative business management of technology projects, including deployment of the Bank's new CRM system, as well as creating collaborations with the FinTech industry.

Further to acquisition of Union Bank shares by the Bank on September 30, 2020, the Union Bank merger process was completed in late 2022. Based on the rationale underlying the transaction to acquire the sixth largest bank in Israel, the inclusion of Union Bank allows Mizrahi Tefahot Group to significantly grow its market share in diverse activity areas, improve the mix of sources and uses, and enhance the competitive stance. Union Bank's credit activity in various channels provides for diversification of Mizrahi Tefahot's credit mix, in line with the Bank's strategic targets, in particular with regard to business credit. Completion of the Union Bank merger would allow for economies of scale and reduced operational expenses of the merged bank.

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

Developments in capital structure

Investments in Bank capital and transactions in Bank shares

- For more information about share issuance as part of the employee stock option plan, see report of changes to shareholders' equity on the financial statements.
- On May 24, 2022, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.
- For more information about changes to the controlling structure at the Bank, see chapter "Corporate governance, audit, other information about the Bank and its management (controlling shareholders)" in this annual report.

Raising of capital sources

As part of the Bank work plan, determined by the Board of Directors and including growth targets for diverse areas of operation, the Bank assesses the impact of achieving these targets on total risk assets at the Bank and, consequently, on the capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.

The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio would not be lower than the minimum capital ratio required by the Supervisor of Banks, at 12.5%.

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For more information about issue of bonds and contingent subordinated obligatory notes (Contingent Convertibles – CoCo) in 2022, see "Developments in financing sources" below.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of bonds as well as shareholder equity.

The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, diversification of sources in Israel and overseas across different currencies, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market in Israel and globally, and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by term and by customer type. The Bank reviews the degree of depositor concentration, and in this regard the Board of Directors and management have set limits and guidelines for concentration risk with regard to a single depositor, liquid means with regard to large / institutional depositors and source structure. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.

Deposits from the public for the Group as of December 31, 2022 amounted to NIS 344.5 billion, compared to NIS 307.9 billion at end of 2021: an increase by 11.9%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2022 by 11.7%; deposits in the CPI-linked segment increased by 1.2%; and deposits denominated in or linked to foreign currency increased by 17.0%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Bank of Israel

The Bank of Israel is the primary source for short-term funding and funds absorption for the banking system, including for the Bank.

In view of the Corona Virus crisis, in April 2020 the Bank of Israel launched a move whereby it would provide low-cost, long-term funding sources to banks, for these to be "rolled on" as available credit to the business sector. This plan was concluded in July 2021. In the second quarter of 2023, long-term monetary loans in the system would start to mature.

Note that any bank borrowing from the Bank of Israel is required to provide collateral (deposits with the Bank of Israel, securities and as of late December 2020 – even qualifying mortgage portfolios) – and this fact is taken into account in regular liquidity management.

The Bank of Israel absorbs excess liquidity through MAKAM tenders (short-term treasury notes) and through monetary deposits for terms of 1 day, 1 week and up to 8 weeks. In 2022, excess liquidity in the banking system deposited in the Bank of Israel declined somewhat, due to sharply higher MAKAM issuance by the Bank of Israel.

Issuance of obligatory notes, bonds and complex capital notes

The Bank acts to raise long-term sources through issuances, including through Mizrahi Tefahot Issuance Company Ltd. (hereinafter: "Tefahot Issuance"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issuance has issued bonds to the public pursuant to published prospectuses.

On August 1, 2022, Tefahot Issuance published a shelf prospectus for issuance of bonds.

As of December 31, 2022, total bonds and subordinated notes amounted to NIS 33.3 billion, compared to NIS 38.0 billion as of December 31, 2021.

Of these, contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III qualification provisions and recognized by the supervisor of Banks as Tier II capital), as of December 31, 2022, amounted to NIS 6.0 billion, compared to NIS 6.1 billion as of December 31, 2021.

For more information about the credit rating of the Bank and its bonds, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof".

Issuance and redemption of funding sources

Further to approval by the Supervisor of Banks, the Bank conducted an early redemption of subordinated note (Series A) in early January 2022, for NIS 2.1 billion. The subordinated note issued by the Bank did not qualify as supervisory capital pursuant to Basel III directives and was gradually written down.

On April 11, 2022, Tefahot Issuance issued two new bond series, Series 63 and 64, NIS-denominated and CPI-linked, amounting to NIS 1.2 billion each, for total consideration amounting to NIS 2.4 billion.

Further to approval from the Supervisor of Banks, in August 2022, Bank Yahav made a full early redemption of subordinated obligatory notes amounting to NIS 129 million.

Further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 56, recognized by the Supervisor of Banks as Tier II capital of the Bank) on September 10, 2022, for NIS 0.3 billion.

On December 8, 2022, Tefahot Issuance issued two new series, Series 65 (contingent subordinated notes – CoCo) and Series 66 (bonds), CPI-linked, amounting to NIS 0.7 billion and NIS 1.2 billion par value, respectively. Furthermore, the current NIS bonds (Series 63) was expanded by NIS 0.7 billion par value. The total consideration for these issuances and expansion amounted to NIS 2.6 billion.

Further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 47, recognized by the Supervisor of Banks as Tier II capital of the Bank) on December 18, 2022, for NIS 0.75 billion.

On February 20, 2023, after the balance sheet date, Tefahot Issuance issued commercial paper (Series 1) for NIS 1.1 billion.

Significant developments in management of business operations

Branch network

Group branches are primarily intended to provide high-quality, professional service to customers across all bank activities, close to where such service is required (residence / business location). To this end, branches manage day-to-day customer activities and offer to customers and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.
Group branches are spread nation-wide and as of December 31, 2022 consisted of 204 business centers and branches, including 53 Bank Yahav branches (of which 3 branches operating partially).
The Bank continues to review its branch network in accordance with its strategic plan, with optimization and location selection based on considerations such as providing optimal service to customers, economic viability considerations etc.
In 2022, the Bank Group branch network decreased by 21 points of sale, due to merger of some Union Bank branches with Mizrahi Tefahot branches.
For more information about sale of Bank Group land, see chapter "Significant Events in the Bank Group's Business" below.
The Bank operates 6 "LIVE" branches, geographic super-branches that provide full, personal service over extended business hours and through diverse communication channels between banker and customer (including through mobile phone calling and text messaging, video communications or by email).
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Direct channels

Policy applied by the Bank with regard to direct channels:
- Implementation of a multi-channel strategy, with the customer at its center, with the personal banker and direct banking channels being an integral part of this strategy.
- Development of hybrid banking service as a strategy for communicating with the customer.
- Expansion of scope and range of services provided through direct banking channels.

Direct channels offered to Bank customers include:
Hybrid Banking services
Hybrid Banking is the epitome of the combination of personal service accessible to customers and technology.
Hybrid Banking services are provided by Bank branches and banking centers, as follows:
- Bank branches – phone call, email and SMS from an identified customer are directly routed to the customer's banker and answered by the banker or by the backup team at the branch.
- The branch team at the banking center provides backup for bankers in branches, facilitating transactions and providing information to Bank customers, as part of the combined Hybrid Service provided to customers.

Online and cellular services
Online service – provides banking information and facilitates transactions in the account for diverse banking products available to Bank customers.
Account management application – allows one to get most of the E-banking services, using optional fingerprint and facial recognition for authentication.
Tefahot Touch app – this app was launched in late 2021 and is used by customers, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. Some of the actions required for taking out a mortgage, which previously required customers to go to the branch in order to conduct them, can now be easily completed using Tefahot Touch. Moreover, this is yet another channel for customers to contact the Bank's mortgage experts. The Tefahot Touch app includes an arena for mortgage consultants.
Self-service at branches
- The Bank constantly expands the services provided to customers at self-service stations.
- Service stations – the Bank provides to service stations allowing customers to conduct transactions, such as: Depositing cash, taking out a loan, ordering checkbooks and depositing checks and obtaining information about their commercial accounts independently, 24 hours a day - even when the branch is closed.
- In 2021, the Bank essentially completed the multi-annual campaign to deploy the cash deposit service using self-service stations at all Bank branches (with a few branches completed in the first quarter of 2022).
- ATMs – As of the end of 2022, the Bank owns 274 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

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Expansion of business operations

For more information about the Bank's strategic plan, see chapter "Business goals and strategy (Strategic plan)" above.
Union Bank merger

On September 30, 2020, the Bank completed the proposed exchange tender for Union Bank shares and acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank.
By end of 2022, the merger of Union Bank into the Bank was completed. This includes completion of onboarding of Union Bank customers at the Bank, closing of all Union Bank branches, and transfer of other operations, in as much as possible, from Union Bank to Mizrahi Tefahot, including Union Bank's nostro operations.
The merger transaction was a material, large-scale and highly complex process which entailed a wide range of risks. The merger process was carried out by several extensive joint work teams of Bank Mizrahi Tefahot and Union Bank, managed by a steering committee headed by the Bank President & CEO, with administrations established to carry out the merger plan and a designated Board committee established to supervise this process. The process of customer transition, started in the second quarter of 2021, was gradual and concluded with IT transition of banking activity from Union Bank systems to Mizrahi Tefahot systems, including any accounts not previously transitioned. The automated conversion processes were conducted with close on-going supervision both by the lines of defense of the Bank – the Risks Control Division and Internal Audit – and by external experts hired to provide control, with emphasis on ensuring integrity of conversion of all customer-related aspects.
The Bank managed the merger project gradually and separately from current business, in order to allow for achievement of the work plan targets concurrently with the merger process.
On August 1, 2022, the process of merging Union Bank insurance agencies with and into Tefahot Insurance Agency Ltd. of Bank Mizrahi Tefahot Group was concluded.
After the balance sheet date, on January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. (a Bank Group company) was completed.
On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank.
For more information about retirement program for Union Bank employees, see chapter "Significant developments in human resources and administration" below.

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

Strategic collaboration
In 2022, the Bank continued to conduct syndication transactions, including sharing of credit risk with institutional and financial entities in Israel and overseas. Further collaboration with institutional entities is part of the Bank's strategic plan.

Significant developments in human resources and administration

Developments in labor relations

Special collective bargaining agreement at Union Bank
On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two of its subsidiaries, by the New General Labor Union / the MAOF trade union / Bank and Credit Company Staff Division and by the Employee Union of Union Bank and the Manager and Authorized Signatory Association of Union Bank (hereinafter in this paragraph: "the Agreement"). The Agreement stipulates the retirement terms and conditions for regular employees of Union Bank, certain temporary employees who meet the criteria stated in the Agreement and certain other employees of the subsidiaries ("Retiring Employees") following the merger of Union Bank with and into the Bank ("Retirement Program"). Pursuant to the Agreement, Union Bank offered to relevant employees who would depart as a result of the merger, a Retirement Program with terms and conditions as set forth in the Agreement (hereinafter: "the Retirement Program"). The Retirement Program is to govern retirement of 340 of the relevant employees, as defined above. In conformity with the Retirement Program, the Retiring Employees were allowed to retire from Union Bank within a specified time period. The benefits offered, depending on employees' age and seniority, included a bridging pension or increased severance pay, retirement bonuses and other benefits applicable to certain employee groups. The retirement of these employees pursuant to the program was gradual through 2022, in conformity with the rules, periods and dates stipulated in the agreement. On June 21, 2021, an addendum to this agreement was signed, whereby the number of retiring employees increased to 480. Moreover, the periods and dates for employee retirement were updated – all through 2022. The final number of retiring employees was close to the specified number, and additional cost beyond the aforementioned were recognized under Payroll Expenses.

Developments in logistics

In 2022, the Bank continued the trend of streamlining and utilizing existing resources as follows:
- Streamlining of areas.
- Optimization of the branch network.

- Further leverage of infrastructure, through temporary leasing to a third party of areas used by the Bank as reserve for future growth.
- On April 30, 2017, the Bank Board of Directors resolved to approve a strategic move of Bank headquarter units to a single central site in Lod. Therefore, in 2017 land with an area of 6,000 m^2 was acquired in Lod, for consideration amounting to NIS 25.8 million, adjacent to the property that currently houses the Mizrahi Tefahot Lod building. The plan called for construction of another building, that would gradually house all Bank headquarter units. In 2022, construction work started and another adjacent plot, with an area of 4,600 m^2, was acquired (in addition to acquiring the area for the internal access road in this campus), for consideration amounting to NIS 8.8 million. Furthermore, the construction permit for above-ground areas was received in February 2023. Project completion and relocation of the units are expected by 2025.

The activities and trends described above are expected to continue in 2023 as well.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.
For more information about human capital at the Bank, organizational structure of the Bank and senior officers, see chapter "Corporate governance, audit, other information about the Bank and its management" in this annual report.

Changes to management and organizational structure of the Bank

On October 11, 2021, the Bank's Board of Directors resolved to appoint Ms. Shevy Shemer as VP, Manager of the Retail Division, replacing Mr. Engel, and her start date in office is April 1, 2022. The Board of Directors of Union Bank appointed Mr. Haim Freilichman as CEO of Union Bank as from April 1, 2022. Mr. Freilichman has previously held this position.

On February 12, 2023, the Bank's Board of Directors approved, as recommended by the Bank President & CEO, changes to the organizational structure and appointment of officers at the Bank, as follows: Appoint Mr. Ofer Hurwitz, currently serving as Bank Secretary and Head of the Bank Headquarters, to be Deputy CEO and Manager, Risks Control Division, replacing Mr. Doron Klauzner who is retiring. This appointment is subject to approval or no contest announcement by the Supervisor of Banks. Mr. Hanan Kikuzashvili, currently Deputy Bank Secretary, would be appointed to be Bank Secretary and Head of the Bank Headquarters, replacing Mr. Ofer Hurwitz. Ms. Meital Harush, currently serving as Manager, LIVE and Direct Banking Sector, to be appointed Deputy CEO and Manager, Human Capital and Resources Division, replacing Mr. Nissan Levi, who had announced his intention to conclude their term in office.
The Board of Directors also approved the creation of two new sectors: Banking Operation Sector and Enterprise-Wide Projects Sector, whose managers would become part of Bank management. The Banking Operation Sector, to include inter alia the back-office operations, engineering and banking processes, clearing house and mortgage insurance agency, would be headed by Micha Argaman, currently Deputy Manager of the Human Capital, Resources and Operations Division. The Enterprise-Wide Projects Sector, to be responsible inter alia for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies, would be headed by Mr. Tal Ben Ari, until recently VP and Manager, Finance Division of Union Bank.
These appointments and re-organization would become effective on April 1, 2023, except for appointment of Mr. Ofer Hurwitz to be Chief Risk Officer, which is subject to receiving a no contest announcement by the Supervisor of Banks, as noted above.

Conclusion of term in office of Bank Yahav CEO

On February 26, 2023, the CEO of Bank Yahav, Mr. Shaul Gelbard, informed the Bank Yahav Board of Directors of their wish to conclude their term in office. The date for concluding Mr. Shaul Gelbard's term in office has yet to be set.

Significant developments in IT

In 2019, the Bank started a project to replace its CRM system gradually, over several years. In March and August 2022, several milestones went live, along with further development of upcoming milestones.
In January 2023, the new payment / receipt server system went live, which is designed to provide a solution in this area for all Bank applications.
As part of bolstering its technology infrastructure, the Bank invests in technology systems, in order to address the evolving challenges in the business environment. The rapid pace of change in technology, changes to how services are made accessible to customers and expansion of the range of channels used by the Bank and its customers, require constant investment in technology. Investments are also made to upgrade the business capabilities and for compliance with new regulatory requirements, such as preparing for Open Banking. The Bank is also developing advanced tools for handling data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.
For more information about investments and expenses with respect to IT, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.
For more information about fixed assets and installations, see chapter "Corporate governance, audit, other information about the Bank and its management" in this annual report.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and personal banking services via branches in Israel and overseas. Bank Group international operations are primarily focused on private banking and on providing financial services to foreign residents and new immigrants and overseas in financing foreign trade, local credit and participation in syndicated loans. As well as providing banking services to Israeli customers with overseas activity. The Bank has affiliates in two countries, as listed in the chapter "Corporate governance, audit, other information about the Bank business and its Management".

The affiliates are in contact with local regulators and act in compliance with their directives.

Control is also applied to activity at affiliates by the Risks Control Division.

Each overseas affiliate acts in compliance with local laws and regulations, and is constantly assisted by local legal counsel, specialized in the banking activity relevant to each affiliate.

International operations are also subject to cross-border risk; for more information see chapter "Risks Overview" below.

For more information about these affiliates and their business, see chapter "Corporate governance, audit, other information about the Bank and its management (Overseas operating results)" in this annual report.

Other matters

Changes to the Bank Board of Directors

On July 4, 2022, the Supervisor of Banks indicated that they had no objection to appointment of Mr. Joseph Fellus as external Board member in conformity with the Corporate Law, 1999 and pursuant to Proper Conduct of Banking Business Directive 301 (for more information see immediate report issued by the Bank dated July 4, 2022, reference no. 2022-01-083230) and on August 9, 2022, a General Meeting of shareholders was held and resolved to re-appoint them as External Board member pursuant to the Corporate Law, for a further term of three years (second term in office), as from August 20, 2022.

On December 21, 2022, the Annual General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman (Chairman of the Board of Directors) as Board member of the Bank for a term through the next Annual General Meeting (to be held in 2023), and to appoint Messrs. Ron Gazit, Jonathan Kaplan, Avi Zeldman, Ilan Kremer and Eli Elroy as Board members of the Bank for terms through the third Annual General Meeting to follow the Annual General Meeting at which they were re-appointed).

Meitav Dash Investments became an interested party

On January 31, 2022, the Bank reported that Meitav Dash Investments became an interested party in the Bank (for more information, see Immediate Report dated January 31, 2022, reference: 2022-01-013135).

Migdal Insurance and Finance Holdings

On August 1, 2022, the Bank reported that Migdal Insurance and Finance Holdings Ltd. became an interested party in the Bank (for more information see immediate report dated August 1, 2022, reference no. 2022-01-097450).

On August 18, 2022, the Bank reported that Migdal Insurance and Finance Holdings Ltd. ceased to an interested party in the Bank (for more information see immediate report dated August 18, 2022, reference no. 2022-01-105688).

On August 28, 2022, the Bank reported that Migdal Insurance and Finance Holdings Ltd. became an interested party in the Bank (for more information see immediate report dated August 28, 2022, reference no. 2022-01-109309).

On September 29, 2022, the Bank reported that Migdal Insurance and Finance Holdings Ltd. ceased to an interested party in the Bank (for more information see immediate report dated September 29, 2022, reference no. 2022-01-233665).

Monetary sanction

On February 6, 2023, the Supervisor of Banks announced their decision to impose on the Bank a monetary sanction, amounting to NIS 700 thousand, for alleged breach of Section 25 of Proper Conduct of Banking Business Directive 450 regarding "Debt collection proceedings", which requires a banking corporation to report to the Court Order Execution Service any receipt on account of debt other through the Service, within seven days of receiving it.

The amount of the monetary sanction imposed has been reduced, from the original amount of NIS 1,000 thousand, which the Supervisor of Banks advised the Bank of their intention to impose due, *inter alia*, to the fact that in the five years prior to this breach, no monetary sanctions were imposed on the Bank, and given the Bank's action to remedy these deficiencies and to avoid their recurrence, after the Bank was contacted by the Supervisor of Banks on this matter.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 26.C.(10-12) to the financial statements.

Explanation and analysis of results and business standing

This chapter includes a description of material trends, occurrences, developments and changes with regard to results and business standing, including analysis of development of revenues, expenses and profit, as well as analysis of development of assets, liabilities, capital and capital adequacy. It also provides a description of results of the Bank's supervisory operating segments and operating results for holdings in major entities.

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank. For more information see chapter "Significant developments in management of Bank business" above.

Effect of the Corona Virus outbreak

In 2020, the Bank applied measures in response to customer needs arising from the situation. Action taken by the Bank includes approval of deferral in current repayments for mortgage customers who needed this due to temporary hardship resulting from the crisis, allowing them to make partial mortgage payments for a limited time and the Bank also extended State-guaranteed loans from State-guaranteed foundations, as part of the economic assistance program announced by the State.

In 2022, as the period of partial repayments was drawing to a close, in order to assist Bank customers, the Bank offered its customers a voluntary outline for deferral and re-scheduling of loan repayments for households, and also allowed them to decrease their monthly mortgage payments by 50%. The Bank also played a significant, active role in extending loans to businesses, as part of state-guaranteed funds, to small businesses to defer the loan principal repayment for 12 months.

Business units continue to keep in close regular contact with customers, in order to help the business sector face the challenges resulting from this crisis.

As of December 31, 2022, the balance of loans provided by the Bank from State-guaranteed funds amounted to NIS 3.4 billion. Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel for 3 years bearing fixed interest at 0.1% whose balance as of December 31, 2022 amounted to NIS 4.9 billion.

For more information about residential mortgages subject to repayment delay, see chapter "Risks overview – Credit risk".

Sale of properties owned by the Bank Group

- On January 30, 2022, the Bank and Bank subsidiaries (hereinafter: "the sellers") signed agreements to sell their entire interest in 24 rental properties across Israel designated for different uses (hereinafter: "the properties"), office and commerce, including: Union Bank management building on Ahuzat Bayit Street, Tel Aviv-Yafo; office building on Lincoln Street, Tel Aviv-Yafo; Union Bank's main Tel Aviv branch on Ahad HaAm Street, Tel Aviv-Yafo; and multiple properties at Mitcham HaBursa in Ramat Gan. The consideration for sale of the interest in the properties amounts to NIS 531.6 million plus VAT (hereinafter: "the consideration" and "the transaction", respectively).
  On February 9, 2022, the Anti-Trust Supervisor granted their approval, thereby the suspensive condition in the transaction was fulfilled and the transaction closed.
  Most of the properties would be leased to the sellers for variable terms as from February 2022, in conformity with provisions of the leases signed by the sellers and the buyer.
  The Bank recognized net profit amounting to NIS 179 million in the first quarter of 2022 with respect to sale of these properties. For more information see Immediate Reports dated September 14, 2021, (reference: 2021-01-146793), report dated January 31, 2022, (reference 2022-01-013000), report dated February 9, 2022, (reference: 2022-01-017011).
- On January 26, 2022, an agreement was signed by Union Bank to sell their entire holding stake in Hof HaTchelet Development Company Ltd. for consideration amounting to NIS 190 million plus VAT. With respect to this sale, the Bank recognized net gain of NIS 100 million in the first quarter of 2022.

General environment and impact of external factors on the Bank Group

Major developments in the banking sector in Israel and overseas

In recent years, the banking system has been addressing multiple major challenges:

- The release of pent-up demand in 2021 as the world emerged from the Corona Virus crisis and as restrictions on business activity were lifted, contributed to deterioration in disruptions in the global supply chain and to higher inflation around the world. In 2022, inflation was higher due to the Russia-Ukraine war and to lock-downs imposed in China due to new Corona Virus outbreaks. The higher inflation globally seeped into the Israeli economy as well, as reflected in higher commodity prices and prices of other goods.
- In order to moderate the inflation rate, many central banks in developed nations have raised their monetary interest rates in 2022, and have taken other measures to reduce their expansive monetary policy. The US central bank raised its monetary interest rate throughout 2022, up to 4.75% in early February 2023. The Bank of Israel also adopted a restrictive monetary policy: The Bank of Israel gradually raised its interest rate from 0.10% in early 2022 up to 3.25% at the end of 2022 and up to 4.25% in February 2023. Due to concerns that raising interest rates too sharply would plunge developed economies into recession, central banks determine the pace of raising interest rates based on the stability of economic activity, noting the state of the labor market and developments in the level of demand. The higher interest rate environment may affect the quality of bank loans due to impacting borrower capacity to continue making loan repayments.
- Geo-political tension – There is still considerable uncertainty with regard to increased geo-political tension globally, in particular between Western countries and Russia and between the USA and China, which is a major risk factor that may impact the global macro-economic environment.
- In recent years, consumer transparency has grown due, *inter alia*, to banking reforms promoted by the Bank of Israel in order to improve consumers' ability to compare and to increase competition between banks:
  - In November 2021, the Bank of Israel announced it would promote a reform designed to increase information transparency for mortgage customers. As part of the reform, banks would allow for a new mortgage application to be filed online; approval in principle would be provided within a few days to the customer, in a uniform format; the approval in principle would include, in addition to the mortgage basket proposed by the banks, three uniform baskets with compositions specified by the Bank of Israel.
  - In October 2022, the Bank of Israel launched its interest rate transparency reform. This reform stipulates publishing the average interest rates actually offered/charged for deposits/loans by each bank. In February 2023, the information provided as part of this reporting was expanded to include breakdowns and other interest calculations.
- Accelerated development of digital banking, based on the online platform and increased use of mobile phones, along with regulatory relief offered by the Bank of Israel in order to promote digital activity. Along with these developments, use by households and businesses of the digital channels is consistently growing. Moreover, the increasing use of digital allows technology companies to enter into the fray of financial brokerage, while creating collaboration with the banking system.
- Competition in the household segment and in the small and medium business segments, has been growing in recent years as the banking system focused on these segments, along with a growing number of non-bank financial entities entering this arena. Separation of credit card companies Isracard and Max (formerly: Leumi Card) from the top two banks was completed in 2019. CAL is expected to be separated from Discount Group by 2027. Credit card issuers are making an effort to grow their retail credit and to expand their customer base in non-bank loyalty clubs. These effects are in addition to new regulatory directives in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Law and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors.
- Digital development and technology evolution in recent years affect the financial system and modify production in the banking sector, due to growing transition to relying on advanced technology. Such technology supports a wider range of banking services available through digital channels, along with lower production cost. Given these trends, technology-based financial entities – FinTech companies and digital banks – have started making in-roads into the banking sector world-wide. The first digital bank in Israel launched operations in March 2021.

- In response to these developments, in recent years banks have been undergoing a digital transformation in order to streamline production in these areas:
  - Deployment of technology improvements for streamlining of operational processes.
  - Digitization of banking services for expanding the product offering to customers, with improved availability and quality.
  - Gradual replacement of IT systems to improve response time, enhance flexibility and achieve infrastructure stability.
- Concurrently, the banking system is taking streamlining measures to reduce headcount and real estate area at branches and headquarters. These measures include relocating banks to campuses outside of high-end real estate areas, designed to decrease rent and real estate expenses.
- The Supervisor of Banks is promoting a project to produce a standard open banking API (Application Programming Interface). Open banking would enable, subject to customer consent, sharing of the customer's financial information. Sharing this information may improve the financial services provided to customers and may increase competition for such services.
- More extensive requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. Conversely, the Supervisor of Banks allowed Israeli banks to issue bonds with loss-absorption features, as is done elsewhere around the world (contingent convertible bonds – CoCo). These bonds improve stability of the issuing bank and reduce Government support that may be required should the bank be in trouble. For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.
- Stricter international regulation with increased cross-border enforcement, as well as matters of local taxation.
- Increased consumer awareness due, *inter alia*, to increased use of social media, with technology enabling easier access to information and to review of financial alternatives. Consequently, the banking world is transitioning to a focus on identifying customer needs, while applying privacy protection laws.

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

Developments in the Israeli and global economy in 2022

Israeli economy

Real developments

The Israeli economy maintained strong growth compared to its pre-COVID levels.

GDP in Israel in 2022 increased at an annualized 6.5%, further to strong 8.6% annualized growth in 2021 and following a 1.9% decrease in 2020. GDP growth in the previous year was primarily affected by growth in private consumption, exports of goods and services and investment in fixed assets.

The unemployment rate in December 2022 was at 4.2%, compared to 4.0% in December 2021. As of December, the number of vacant jobs in the economy was at a high 141.5 thousand jobs. The employment rate in December was at 63.6%, compared to 62.9% in December 2021.

According to forecast by the Bank of Israel Research Division dated January 2023, GDP in Israel is expected to grow by 2.8% in 2023. The forecast calls for a continued tight labor market, with slightly higher unemployment.

Inflation and exchange rates

In 2022, the Consumer Price Index increased by 5.3% (higher than the Bank of Israel target range), compared to an increase by 2.8% in 2021. The increase in CPI was primarily affected by the release of pent-up demand and elimination of restrictions on economic activity as the country emerged from the Corona Virus crisis, as well as by higher energy and commodity prices world-wide. All CPI components were higher, except for clothing and footwear.

In 2022, the NIS was devalued by 13.2% against the USD, affected by foreign currency purchasing by institutional investors due to declines in global financial markets. The devaluation of the NIS increased inflationary pressures.

Information about official exchange rates and changes there to:

	December 31, 2022	December 31, 2021	Change in %
Exchange rate of:			
USD (in NIS)	3,519	3,110	13.2
EUR (in NIS)	3,753	3,520	6.6

On March 8, 2023 the USD/NIS exchange rate was 3.589, a devaluation by 2.0% compared to December 31, 2022. On that date, the EUR/NIS exchange rate was 3.817, a devaluation by 1.7% compared to December 31, 2022.

Monetary policy

Following the higher inflation and housing prices, and given the stability of the economic activity and labor market, the Bank of Israel continued to gradually raise interest rates. This was similar to trends at many central banks around the world. In February 2023, the Bank of Israel interest rate reached 4.25%, compared to 0.10%|at the end of 2021. In its interest rate decision in February 2023, the Monetary Committee noted that the pace of interest rate increases would be determined by data for activity and inflationary evolution. Prior to raising interest rates in February, the forecast by the Bank of Israel Research Division, dated January 2023, called for the average interest rate in the fourth quarter of 2023 to be 4.0%.

Fiscal policy

In 2022, the Government budget recorded a NIS 9.8 billion cumulative surplus, compared to NIS 69.2 billion deficit in 2021. In 2022, the budget surplus as percentage of GDP was 0.6%. In 2022, expenditure by Government ministries decreased by 4.8% compared to the corresponding period last year; Excluding expenses for addressing the Corona Virus crisis, Government expenditure increased by 5.6%. Tax collection increased by a nominal 13.7% compared to the corresponding period last year. On December 29, 2022, the 37th Israeli Government was sworn in. In January 2023, the Government decided on a range of measures to reduce the cost of living, including a freeze of property tax rates, reduced increase in price of electricity and water and reduction in the price of petrol.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2022 40.5 thousand new apartments were sold, a decrease by 30.0% compared to 2021 and by 2.0% over 2020. In 2022, residential mortgages extended to the public amounted to NIS 118.2 billion, compared to NIS 116.8 billion in 2021 and NIS 79.0 billion in 2020 – an increase by 1% and 50%, respectively. However, due to the higher interest rate environment, as from July 2022 mortgage originations slowed down from record levels in the first half.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended December 2022, increased by 17.1%, following an increase by 11.5% in 2021 and an increase by 4.0% in 2020.

Capital market

Global equity market were negative in 2022, led by stock exchanges in the USA and in Europe, similar to major equity benchmarks in Israel.

Trading on global equity markets in the fourth quarter of 2022 was positive, led by stock exchanges in the USA and in Europe, as opposed to the negative trend of major equity benchmarks in the Israeli market.

Below are changes to major stock indices in Israel (in percent):

CPI	2022	2021	2020
Tel-Aviv 35	(9.2)	32.0	(11.0)
Tel-Aviv 125	(11.9)	31.2	(3.0)
Tel-Aviv 90	(18.3)	33.1	18.1

The average daily trading volume of shares and convertible securities in the fourth quarter of 2022 amounted to NIS 2.0 billion on average – similar to the average trading volume in the corresponding period last year. In 2022, the average volume was NIS 2.3 billion, compared to an average volume of NIS 1.9 billion in 2021.

Below are changes to major bond indices in Israel (in percent):

CPI	2022	2021	2020
General bonds	(8.3)	4.1	0.8
Government bonds, CPI-linked	(9.8)	7.4	1.2
Government bonds, non-linked	(8.8)	(0.8)	1.3
Tel-bond 20	(10.0)	8.3	(0.2)
Tel-bond 40	(8.0)	7.3	0.1

Global economy

Global economic growth slowed down in 2022. This was due to the war in the Ukraine and to lock-downs imposed in China to address new Corona Virus outbreaks, which resulted in higher inflation around the world due to issues with the global supply chain and higher prices of energy and commodities. According to the IMF forecast dated October 2022, global inflation would be at 5.1% in 2023. According to this forecast, global GDP growth in 2023 is expected to be at 2.7%, or 0.2 percentage points lower than in the previous forecast dated July 2022.

The US economy grew in 2022 at an annualized rate of 2.1%, compared to 5.9% growth rate in 2021. During the year, the inflation rate rose to a record of 9.1% for the 12 months ended in June, and then decreased to 6.5% for all of 2022. The high inflation rate led the Fed to raise monetary interest rates throughout 2022, reaching 4.75% in early February 2023. In late 2022, the Purchasing Manager indexes in the industrial and services sectors showed a moderate contraction, after indicating expansion in the first three quarters. The higher inflation and interest rates slowed down the real estate sector, as evidenced by the decrease in investment in residential construction, the lower number of transactions and lower apartment prices. In December 2022, unemployment reached 3.5%, similar to its pre-COVID level.

The Euro Zone economy grew in 2022 by an annualized 3.5%, compared to 5.3% growth in 2021. The inflation rate was higher at 9.2% for all of 2022. In order to curb inflation, the ECB gradually raised its monetary interest rate on deposits, to 2.5% in early February 2023. The Purchasing Manager indexes in the industrial and services sectors have been declining since the start of 2022 and indicate contraction in activity.

China's economy grew in 2022 by 3.0%, after growing by 8.1% in 2021. The economic growth rate was impacted by new Corona Virus morbidity waves, which caused lock-downs to be imposed and operations at many plants to be suspended. In view of the economic slow-down and sideways movement in the real estate sector, China's central bank lowered the key interest rate and decreased reserve requirements for banks. In October 2022, incumbent President Shi was elected to another term in office. In late 2022, the Chinese Government announced relief measures with regard to travel restrictions imposed due to Corona Virus outbreaks.

Below are changes to major stock indices overseas (in percent):

CPI	2022	2021	2020
Dow Jones	(8.8)	18.7	7.3
S&P 500	(19.4)	26.9	16.3
NASDAQ 100	(33.0)	26.6	47.6
DAX	(12.4)	15.8	3.6
FTSE 100	0.9	14.3	(14.3)
CAC	(9.5)	28.9	(7.1)
Nikkei 225	(9.4)	4.9	18.4

Risk events

In 2022, there were no material loss events nor events with potential for material loss.

Major and emerging risks

The Bank's business activity exposes the Bank to various financial and non-financial risks, with potential to impact the Bank's financial results or image.

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

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

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

In recent months there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this stage it is too early to assess the developments and impact of these events on Israel's economy.

Below are details of material major and emerging risks identified at the Bank:

Strategic business risk – is the risk, in real time or in future, to Bank profits, capital, reputation or status, which may arise from erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

The Business-Strategic Risk Manager is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy, including monitoring developments of external factors that may affect the Bank's business-strategic risk, including regulatory, economic or technology developments which affect the strategy, and monitors implementation of work plans and aligning them with the strategic trajectory.

Developments in the business environment which may impact strategic risk include increased local and global geo-political tension, its impact on local and global economic activity, effect of inflation and higher interest rates, which raised the cost of borrowing, technological developments in the world of finance and changes to consumer preferences, the impact of regulatory provisions in core areas of banking operations. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve.

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

Technological developments in the world of finance and changes to consumer preferences result in ever-growing transition to digital banking activities. The evolution of open banking may result in increased price competition, primarily for payments and money transfers. In view of these developments, there is growing risk of diffused consumption of banking products and increased competitive threat to the banking system, due to entry of non-banking financial entities and technology companies into areas of banking activity. The Bank is preparing for this changing technological world by adapting the banking production function through, *inter alia*, investments in technology. In 2022, regulatory risk increased due to proliferation of various proposed legislation.

On April 26, 2021, the Bank’s Board of Directors approved a five-year strategic plan for 2021-2025 based, *inter alia*, on positioning the Bank as a key player in business banking, establishing the Bank Group's leadership position among households, providing personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with customer choice and needs, as well as offering personalized value propositions across all channels, which are customized for customer needs, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448).

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

There is uncertainty with regard to increased geo-political tension globally, in particular between Western countries and Russia and between the USA and China, which is a major risk factor that may impact the global macro-economic environment.

In 2022, the pace of inflation was higher in Israel and world-wide, due to significantly higher demand following the Corona Virus crisis, which the supply side failed to deliver on due to disruptions in the global supply chain, along with higher prices of commodities, food and energy due to the war in the Ukraine.

Since the start of 2022, the pace of inflation in Israel has been increasing consistently, with higher prices of negotiable and non-negotiable goods. The rapid increase in monetary interest rates was designed to curb demand and to bolster the local currency in order to achieve more moderate inflation. In the second quarter of 2022, the Bank of Israel started to continuously raise interest rates, from 0.1% to 4.25% in early 2023, and there is concern that raising interest rates too sharply may result in a recession in developed economies. Therefore, central banks determine the pace of raising interest rates based on the stability of economic activity, state of the labor market and developments in the level of demand. The higher interest rate and inflation made for higher borrowing costs and may impact the Bank's credit risk. The Bank regularly monitors the potential effects on its business operations. Furthermore, there is still some uncertainty with regard to potential future implications of the higher interest rate environment on business and economic activity.

In 2022, the Corona Virus primarily impacted global economic activity in China, which had imposed many travel restrictions due to on-going waves of morbidity. These restrictions affected global demand, but also extended the disruption to the global supply chain. There is still uncertainty with regard to future outbreaks of the virus, its future attributes and potential future impact on business and economic activity.

Information security risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.
Cyber threats towards financial institutions continues to evolve and increase. Attack incidents show increased sophistication and motivation, with a significant increase in the number of cyber events and in the extent of losses due to such events world-wide. Moreover, technology and digital developments to the banking system increased the threat surfaces and increased the cyber risk. The Bank's information security department continues to reinforce the defense mechanisms applied in Bank systems, in order to limit the ability to defraud customers and to conduct un-authorized transactions in customer accounts. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat.

The Bank's information security team operates fully and continuously throughout the year, constantly improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

Technological risk – Technological risk is a significant risk to the banking system. The risk is affected by more rapid technological and digital development, in response to changing customer needs. The legacy core systems at banks, along with multiple banking regulatory requirements within short timeframes increase the potential damage that may arise from technology risk that is material for proper operation of the Bank. In 2022, the Technology Division continues to fully operate in support of normal Bank operations and in providing a response to current and future technology requirements for such operations.

As part of bolstering its technology infrastructure, the Bank invests in technology systems, in order to address the evolving challenges in the business environment. The rapid pace of change in technology, changes to how services are made accessible to customers and expansion of the range of channels used by the Bank and its customers, require constant investment in technology. Investments are also made to upgrade the business capabilities and for compliance with new regulatory requirements, such as preparing for Open Banking. The Bank is also developing advanced tools for handling data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.

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

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

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

Environmental risk – This is risk due to potential impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other, derived risks: reputation risk, third-party liability risk and so forth.

Climate risk – risk due to increased frequency and intensity of weather events due to global warming. The Bank faces risk of financial loss or impact to its reputation, due to materialization of physical events or processes or adjustment to transition risk due to climate change.

Climate risk includes transition risk, which is regarded as long-term risk. Such risk is due to the accommodation process to a low-carbon economy (such as transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risk that may materialize due to direct impact of extreme events, such as fire, flooding and so forth, and due to prolonged, chronic change that may result from higher sea levels and higher temperatures that may affect the ecological system, desertification processes and so forth.

In December 2022, the Supervisor of Banks issued a directive updating the Public Reporting Regulations with regard to disclosure of ESG aspects. This directive expands the disclosure requirements with regard to management of ESG risk (Environment, Social and Governance); this directive is to be implemented as from the 2022 ESG Report. Moreover, in December 2022, the Supervisor of Banks issued a draft directive on "Principles for effective management of financial risks related to climate", based on guidance from the Basel Committee. The full, final implementation date has yet to be decided.

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

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the 2022 Risks Report on the Bank website:
www.mizrahi-tefahot.co.il > About the Bank > Investor Relations > Financial Information.

Independent Auditor's reports

The Bank's Independent Auditor, from 1995 to date, have been Brightman Almagor Zohar & Co.

For more information about disclosure in the Independent Auditor's opinion of key audit matters, see Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited on the financial statements.

Events after the balance sheet date

- For more information about a dividend distribution with respect to earnings of the fourth quarter of 2022, see chapter " Analysis of structure of assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of the financial statements.
- After the balance sheet date, on January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. (a Bank Group company) was completed.
- On February 20, 2023, after the balance sheet date, Tefahot Issuance issued commercial paper (Series 1) for NIS 1.1 billion.

Changes to critical accounting policy and to critical accounting estimates

The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements.

Below are changes to critical accounting policy and to critical accounting estimates which affect the operating results in reported periods:

As set forth in Note 1.C.1., following the adoption of updates to generally acceptable accounting practices by banks in the United States – provision for credit losses and other directives (CECL), the following were revised, inter alia: calculation of estimated provision for credit losses, estimated expected loss over the term of the credit in lieu of loss incurred and yet to be identified.

For this purpose, the Bank has developed models to estimate the provision for credit losses. In order to develop these models. the Bank was required to exercise judgement in assessments, estimates and assumptions which affect financial data. Note that actual results may differ from these estimates.

The new rules for calculation of the provision for credit losses apply to loans (including residential mortgages), to bonds held to maturity and to certain off-balance sheet credit exposures.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in 2022 amounted to NIS 4,472 million, compared to net profit of NIS 3,188 million in 2021 – an increase by 40.3%. Net profit in 2022 reflects return on equity of 20.1%, compared to 15.8% in 2021.

Group net profit in the fourth quarter of 2022 amounted to NIS 1,087 million, compared to NIS 679 million in the corresponding period last year – an increase by 60.1%. Net profit in the fourth quarter of 2022 reflects annualized return on equity of 18.5%, compared to 12.9% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in 2022 amounted to NIS 10,994 million, compared to NIS 8,086 million in the corresponding period last year, an increase by 36.0%.
Net interest revenues and non-interest financing revenues(1) in the fourth quarter of 2022 amounted to NIS 3,150 million, compared to NIS 2,041 million in the corresponding period last year, an increase by 54.3%.

Net interest revenues and non-interest financing revenues(1) from current operations in 2022, excluding the effect of Union Bank, amounted to NIS 9,217 million, as described below, compared to NIS 6,586 million in the corresponding period last year, an increase by 39.9%.

Net interest revenues and non-interest financing revenues(1) from current operations in the fourth quarter of 2022, amounted to NIS 2,802 million, as described below, compared to NIS 1,741 million in the corresponding period last year, an increase by 60.9%.

The increase in revenues from current operations in 2022 is primarily due to increase by 13.3% in balance of loans to the public, compared to December 31, 2021, and to increase in Bank of Israel interest rates (as from April 2022) and interest of the US Federal Reserve (as from March 2022).

Below is analysis of development of financing revenues from current operations (NIS in millions):

	All of		Change in
	2022	2021	%
Interest revenues, net	10,240	7,685	
Non-interest financing revenues(1)	754	401	
Total financing revenues	**10,994**	**8,086**	**36.0**
Net of:			
Effect of the Consumer Price Index	1,144	484	
Revenues from interest collected with respect to problematic debts	67	57	
Gains (losses) from bonds, shares and real investments	(3)	254	
Effect of accounting treatment of derivatives at fair value and others(2)	569	705	
Total effects other than from current operations	**1,777**	**1,500**	
Total financing revenues from current operations	**9,217**	**6,586**	**39.9**

Below is an analysis of development in financing revenues from current operations (NIS in millions) – Continued:

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues, net	2,952	2,691	2,453	2,144	1,958	2,001	2,035	1,691
Non-interest financing revenues(1)	198	263	176	117	83	63	66	189
Total financing revenues	**3,150**	**2,954**	**2,629**	**2,261**	**2,041**	**2,064**	**2,101**	**1,880**
Net of:								
Effect of the Consumer Price Index	270	267	379	228	41	173	251	19
Revenues from interest collected with respect to problematic debts	12	22	20	13	18	14	14	11
Gains (losses) from bonds, shares and real investments	(12)	25	(48)	32	55	17	63	119
Effect of accounting treatment of derivatives at fair value and others(2)	78	93	225	173	186	189	159	171
Total effects other than from current operations	**348**	**407**	**576**	**446**	**300**	**393**	**487**	**320**
Total financing revenues from current operations	**2,802**	**2,547**	**2,053**	**1,815**	**1,741**	**1,671**	**1,614**	**1,560**

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The decrease in such revenues in 2022 is primarily due to decrease in revenues from early repayment commissions. This item includes the effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value and early repayment commissions.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	For the year ended December 31			
Operating segment	**2022**	**2021**	**Change amount**	**Change in %**
Private individuals:				
Households – residential mortgages	2,550	2,263	287	12.7
Households – other	2,191	1,437	754	52.5
Private banking	172	81	91	-
Total individuals	**4,913**	**3,781**	**1,132**	**29.9**
Business operations:				
Small and micro businesses	1,858	1,364	494	36.2
Medium businesses	457	335	122	36.4
Large businesses	802	590	212	35.9
Institutional investors	239	112	127	-
Total business activity	**3,356**	**2,401**	**955**	**39.8**
Financial management	2,478	1,688	790	46.8
Total activity in Israel	**10,747**	**7,870**	**2,877**	**36.6**
Overseas activity	247	216	31	14.4
Total	**10,994**	**8,086**	**2,908**	**36.0**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Corporate governance, other information about the Bank and its management" on the financial statements.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	For the year ended December 31		
Linkage segment	**2022**	**2021**	**Change in %**
Israeli currency – non-linked	286,245	256,660	11.5
Israeli currency – linked to the CPI	80,577	73,138	10.2
Foreign currency (including Israeli currency linked to foreign currency)	16,280	15,482	5.2
Total	**383,102**	**345,280**	**11.0**

Change in average balances of interest-bearing assets is primarily due to growth in loans to the public.

Below are interest spreads (the difference between interest revenue rate for assets and interest expense rate for liabilities)(1) based on average balances(2), attributed to activity in Israel, in the various linkage segments (in percent):

	For the year ended December 31		For the quarter ended December 31	
Linkage segment	**2022**	**2021**	**2022**	**2021**
Israeli currency – non-linked	2.14	1.92	2.17	2.03
Israeli currency – linked to the CPI	1.36	1.43	1.59	1.55
Foreign currency	1.13	1.33	0.97	1.35
Total	**1.84**	**1.76**	**1.90**	**1.88**

(1) Revenue and expense rates calculated for interest-bearing assets and liabilities.
(2) Average balances before deduction of provision with respect to credit losses.

Changes in interest spreads:

The increase in interest rate spread in the non-linked NIS segment is primarily due to the higher interest rates compared to the corresponding period last year.

The interest rate spread in the foreign currency segment shown excludes the effect of derivatives. Including the effect of derivatives, the interest rate spread in the foreign currency segment increased.

For composition of interest rate spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the quarterly financial statements.

Interest revenues, net and non-interest financing revenues are impacted by the change in interest rates and by the change in activity, as reflected in balances of loans and deposits.

For more information about average balances of loans to the public and deposits from the public, and about revenues from the loan/deposit spread by operating segment, see Note 29 to the financial statements.

For more information about the impact of scenarios of changes to interest rates on interest revenues, net and on non-interest financing revenues, see chapter "Market risk and interest risk" below.

Expenses with respect to credit losses for the Group amounted to NIS 532 million in 2022, or an annualized rate of 0.17% of total loans to the public, net, compared to revenues with respect to credit losses amounting to NIS 278 million in the corresponding period last year.

Expenses with respect to credit losses for the Group amounted to NIS 191 million in the fourth quarter of 2022, or an annualized rate of 0.25% of total loans to the public, net, compared to revenues with respect to credit losses amounting to NIS 15 million in the corresponding period last year.

Expenses with respect to credit losses in 2022 primarily include increase in the group-based provision due to growth of the Bank's commercial loan and residential mortgage portfolio, reflecting the higher market interest rate. The increase in group-based provision contributed NIS 338 million to total expenses with respect to credit losses in 2022 (in the fourth quarter of 2022: NIS 130 million). Excluding this contribution, expenses with respect to credit losses would have amounted to NIS 194 million in 2022 (in the fourth quarter of 2022: NIS 61 million), or 0.06% of total loans to the public (in the fourth quarter of 2022: 0.08%).

In the corresponding period last year, the Bank recognized revenues with respect to decrease in provision for credit losses, due to decrease in the group-based provision, against the background of improved macro-economic data, due to recovery from the Corona Virus crisis and decrease in loan amount subject to repayment deferral due to the Corona Virus crisis.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	For the year ended December 31		For the quarter ended December 31	
	2022	**2021**	**2022**	**2021**
Expenses with respect to credit losses on individual basis (including accounting write-offs):				
Increased expenses	485	352	153	74
Decreased expenses	(291)	(284)	(92)	(60)
Total individual expense for credit losses	**194**	**68**	**61**	**14**
Expenses for credit losses on group basis:				
with respect to residential mortgages[(1)]	99	(12)	11	(15)
Other	239	(334)	119	(14)
Total group expense (revenues) for credit losses	**338**	**(346)**	**130**	**(29)**
Total expenses (revenues) with respect to credit losses	**532**	**(278)**	**191**	**(15)**
Rate of the expenses (revenues) with respect to credit losses as percentage of total loans to the public, net (annualized):	0.17%	(0.10%)	0.25%	(0.02%)
Of which: With respect to commercial loans other than residential mortgages	0.39%	(0.15%)	0.65%	0.11%
Of which: with respect to residential mortgages	0.05%	(0.08%)	0.02%	(0.09%)
Rate of the expenses with respect to individual provision for credit losses, as percentage of total loans to the public, net (annualized):	0.06%	0.03%	0.08%	0.02%

(1) In the comparison period, including provision by extent of arrears.

Below are details of expenses with respect to credit losses by supervisory operating segments for the Group (NIS in millions):

Operating segments	For the year ended December 31		For the quarter ended December 31		Rate of expenses with respect to credit losses: Annual		Fourth quarter	
	2022	2021	2022	2021	2022	2021	2022	2021
Private individuals:								
Households – residential mortgages	99	(133)	11	(41)	0.05	(0.08)	0.02	(0.09)
Households – other	97	(55)	45	(22)	0.36	(0.21)	0.67	(0.34)
Private banking	–	(1)	(1)	–	–	(0.72)	(2.61)	–
Total individuals	**196**	**(189)**	**55**	**(63)**	**0.09**	**(0.09)**	**0.10**	**(0.13)**
Business operations:								
Small and micro businesses	113	(71)	57	(23)	0.33	(0.23)	0.67	(0.30)
Medium businesses	94	22	41	14	0.74	0.22	1.29	0.57
Large businesses	101	(7)	24	57	0.35	(0.03)	0.34	0.98
Institutional investors	–	(32)	(1)	(5)	–	(1.09)	(0.16)	(0.68)
Total business activity	**308**	**(88)**	**121**	**43**	**0.40**	**(0.13)**	**0.62**	**0.26**
Financial management	–	(1)	–	(1)	–	–	–	–
Total activity in Israel	**504**	**(278)**	**176**	**(21)**	**0.17**	**(0.10)**	**0.23**	**(0.03)**
Overseas operations	28	–	15	6	0.43	–	0.92	0.57
Total	**532**	**(278)**	**191**	**(15)**	**0.17**	**(0.10)**	**0.25**	**(0.02)**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Corporate governance, other information about the Bank and its management" on the financial statements.

For more information about analysis of development of loans to the public, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

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

Non-interest revenues amounted to NIS 3,428 million in 2022, compared with NIS 2,635 million in 2021, an increase by NIS 793 million.

Non-interest revenues amounted to NIS 767 million in the fourth quarter of 2022, compared with NIS 679 million in the corresponding period last year, an increase by NIS 88 million – see explanation below.

Non-interest financing revenues in 2022 amounted to NIS 754 million, compared to NIS 401 million in 2021.

Non-interest financing expenses in the fourth quarter of 2022 amounted to NIS 198 million, compared to NIS 83 million in the corresponding period last year.

This item includes, *inter alia*, the effect of fair value, gain (loss) from activity involving bonds and securities, as well as linkage differentials for CPI derivatives and interest accrual effect (time value) inherent in derivative assets, for which the corresponding revenues (expenses) are recognized pursuant to accounting rules under Interest Revenues. See "Analysis of financing revenues from current operations" above.

Commission revenues amounted to NIS 2,052 million in 2022, compared with NIS 1,947 million in 2021, an increase by 5.4%, due to continued business expansion.

Commission revenues in the fourth quarter of 2022 amounted to NIS 505 million, compared to NIS 528 million in the corresponding period last year – a decrease by 4.4%, primarily due to decrease in securities commissions due to decrease in activity volume.

Below is information about commissions by major commission type (NIS in millions):

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Account management	106	113	113	108	112	103	102	95
Conversion differences	81	87	83	85	88	69	74	75
Activities involving securities	57	60	67	74	75	72	78	89
Commissions from financing transactions	82	82	71	76	66	64	62	66
Credit cards	72	64	59	65	71	61	50	54
Credit processing(1)	38	40	39	40	44	42	38	28
Other commissions	69	73	76	72	76	62	61	70
Total commissions	**505**	**519**	**508**	**520**	**532**	**473**	**465**	**477**

	2022	2021
Account management	440	412
Conversion differences	336	306
Activities involving securities	258	314
Commissions from financing transactions	311	258
Credit cards	260	236
Credit processing(1)	157	152
Other commissions	290	269
Total commissions	**2,052**	**1,947**

(1) Includes the following commissions: Handling credit, foreign trade and net revenues from servicing credit portfolios.

For more information about commission revenues by commission type, see Note 4 to the financial statements.

Other revenues in 2022 amounted to NIS 622 million, compared with NIS 287 million in 2021, an increase by NIS 335 million.

Other revenues in the fourth quarter of 2022 amounted to NIS 64 million, compared to NIS 68 million in the corresponding period last year.

Other revenues in 2022 include capital gain from realized assets (recorded in the first quarter) amounting to NIS 371 million. For more information see chapter "Significant Events in the Bank Group's Business" above.

Other revenues also include quarterly revenues amounting to NIS 51 million with respect to deferred credit balance, net recognized with respect to acquisition of Union Bank which is recognized on profit and loss over 5 years as from the fourth quarter of 2020.

Other revenues in 2021 include capital gain amounting to NIS 14 million (recognized in the third quarter) from sale of the subsidiary United Mizrahi Bank (Switzerland) Limited.

Operating and other expenses amounted to NIS 6,173 million in 2022, compared with NIS 5,568 million in 2021, an increase by 10.9%.

Operating and other expenses in the fourth quarter of 2022 amounted to NIS 1,814 million, compared to NIS 1,555 million in the corresponding period last year, an increase by 16.7%.

For details by operating expense component, see below.

Payroll and associated expenses amounted to NIS 4,029 million in 2022, compared with NIS 3,536 million in 2021, an increase by 13.9%.

Payroll and associated expenses in the fourth quarter of 2022 amounted to NIS 1,194 million, compared to NIS 960 million in the corresponding period last year – an increase by 24.4%.

The pace of increase in payroll expenses was primarily affected by variable remuneration items, due to the fiscal results in 2022.

Maintenance and depreciation expenses amounted to NIS 1,012 million in 2022, compared with NIS 1,002 million in 2021, an increase by 1.0%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 281 million in the fourth quarter of 2022, compared with NIS 267 million in the corresponding period last year – an increase by 5.2%.

Maintenance expenses were affected by closing of some Union Bank branches, with respect to AC.

For more information about expenses with respect to IT, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Other expenses amounted to NIS 1,132 million in 2022, compared with NIS 1,030 million in 2021, an increase by 9.9%.

Other expenses in the fourth quarter of 2022 amounted to NIS 339 million, compared to NIS 328 million in the corresponding period last year – an increase by 3.4%.

In 2022, other expenses include non-recurring expenses with respect to the Union Bank merger.

Below is Cost-Income Ratio data(1) (in percent):

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Cost Income Ratio	48.8	43.3	45.0	(2)43.2	59.0	51.2	50.4	55.3

	For the year ended December 31	
	2022	2021
Cost Income Ratio	(2)45.2	54.0

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(2) Excluding capital gain from realized properties, the ratio in 2022 and in the first quarter of 2022 was 46.4% and 48.8%, respectively.

Pre-tax profit for the Group amounted to NIS 6,963 million in 2022, compared with NIS 5,030 million in 2021.

Group pre-tax profit in the fourth quarter of 2022 amounted to NIS 1,714 million, compared to NIS 1,097 million in the corresponding period last year.

The rate of provision for taxes on profit in 2022 was 33.8%, compared to 34.4% in 2021.

The provision rate for taxes on profit in the fourth quarter of 2022 was 33.8% – compared to 35.6% in the corresponding period last year.

See Note 8 to the financial statements for additional information.

The Bank's share of after-tax profit of associates in 2022 amounted to profit with respect to associates of NIS 5 million, compared to loss of NIS 10 million in the corresponding period last year.

Bank share of after-tax profit of associates – in the fourth quarter of 2022 the Bank recognized gain with respect to associates amounting to NIS 1 million. In the corresponding period last year there was no profit recognized with respect to associates.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2022 amounted to NIS 140 million, compared to NIS 102 million in 2021.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2022 amounted to NIS 48 million, compared to NIS 28 million in the corresponding period last year.

The increase in net profit of Bank Yahav is due to increase in interest revenues due to increase in activity, increase in Bank of Israel interest rates and increase in the Consumer Price Index.

Net profit attributable to shareholders of the Bank amounted to NIS 4,472 million in 2022, compared with NIS 3,188 million in 2021.

Net profit attributable to shareholders of the Bank in the fourth quarter of 2022 amounted to NIS 1,087 million, compared to NIS 679 million in the corresponding period last year.

Shareholder equity of the Bank includes a decrease by NIS 252 million and NIS 3 million in 2022 and in the fourth quarter of this year, due to adjustments with respect to presentation of bonds available for sale at fair value and to adjustments of liabilities with respect to employee benefits ("Other comprehensive income attributable to shareholders of the Bank"). This is compared to decrease by NIS 27 million and NIS 11 million in the corresponding periods last year. For details see Note 10 to the financial statements.

For more information about Bank Group results in the interim period, see multi-quarter information for the past two years in appendixes to the annual report.

Below is development of Group return[(1)] on equity[(2)] and ratio of Tier I equity to risk components liquidity coverage ratio[(3)] and leverage ratio[(4)] at the end of the quarter (in %):

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net profit return on equity[(6)]	18.5	20.8	19.4	[(5)]21.9	12.9	16.2	19.8	14.1
Ratio of Tier I equity to risk components at end of quarter	9.94	9.92	10.00	10.01	10.04	10.44	10.53	10.15
Liquidity coverage ratio (Quarterly)	118	119	120	120	125	126	132	133
Leverage ratio at end of quarter	5.42	5.26	5.23	5.31	5.18	5.37	5.36	5.16

	For the year ended December 31	
	2022	2021
Net profit return on equity	[(5)]20.1	15.8

(1) Annualized return.

(2) Return on average shareholder equity, including "all equity instruments", as presented under reported revenue and expense rates, net of average balance of rights of external shareholders and less/plus the average balance of unrealized loss/gain from fair value adjustment of bonds held for trading and of bonds available for sale.

(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

(4) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.

(5) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 and in the first quarter of 2022 was 19.0% and 16.6%, respectively.

(6) In conformity with Bank of Israel circular 2664-06, the calculation method for presenting return for interim periods has been revised. Comparative figures were revised accordingly. Net profit return on equity in 2021 using the old method was: For the first quarter: 14.9%; for the second quarter: 21.3%; for the third quarter: 17.3%; for the fourth quarter: 13.5%.

Below is data for earnings and dividends per share (ordinary share of NIS 0.1 par value) (in NIS):

	2022				2021			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Basic earnings per share	4.23	4.59	4.11	4.50	2.65	3.30	3.87	2.65
Diluted earnings per share	4.21	4.56	4.09	4.43	2.62	3.29	3.85	2.64
Dividends per share (in Agorot)	137	123	–	106	293	189	–	–

	For the year ended December 31	
	2022	2021
Basic earnings per share	17.47	12.47
Diluted earnings per share	17.38	12.35
Dividends per share (in Agorot)	366	482

Analysis of structure of assets, liabilities, equity and capital adequacy

Assets and liabilities

Below is development of key balance sheet items of the Bank Group (NIS in millions):

	December 31		
	2022	**2021**	**Change in %**
Total assets	428,292	392,271	9.2
Cash and deposits with banks	93,673	95,267	(1.7)
Loans to the public, net	307,472	271,428	13.3
Securities	15,144	15,033	0.7
Buildings and equipment	1,503	1,734	(13.3)
Deposits from the public	344,514	307,924	11.9
Deposits from banks	6,994	6,992	0.0
Bonds and subordinated notes	33,287	38,046	(12.5)
Shareholder's equity	23,780	20,770	14.5

Cash and deposits with banks – the balance of cash and deposits with banks decreased in 2022 by NIS 1.6 billion. The increase in this balance is part of regular liquidity management at the Bank.

Loans to the public, net – loans to the public, net as of December 31, 2022 accounted for 72% of total assets, compared to 69% at the end of 2021. Loans to the public, net increased in 2022 by NIS 36.0 billion, an increase by 13.3%.

For more information about analysis of on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to residential mortgages, see chapter "Risks" below and the 2022 Risks Report, available on the Bank website.

Below is data about loans to the public, net by linkage basis (NIS in millions):

	Balance as of December 31		**Change in**	**Percentage of total loans to the public, net as of December 31**	
Linkage segment	**2022**	**2021**	**%**	**2022**	**2021**
Israeli currency					
Non-linked	215,424	190,455	13.1	70.1	70.2
CPI-linked	76,228	69,534	9.6	24.8	25.6
Foreign currency, including linked to foreign currency	15,820	11,439	38.3	5.1	4.2
Total	**307,472**	**271,428**	**13.3**	**100.0**	**100.0**

Below is data about loans to the public, net by supervisory operating segment (NIS in millions):

	2022	2021	Change in %
Private individuals:			
Households – residential mortgages	195,820	174,822	12.0
Households – other	27,064	25,948	4.3
Private banking	153	139	10.1
Total individuals	**223,037**	**200,909**	**11.0**
Business operations:			
Small and micro businesses	34,152	30,245	12.9
Medium businesses	12,704	9,848	29.0
Large businesses	28,519	23,289	22.5
Institutional investors	2,556	2,939	(13.0)
Total business activity	**77,931**	**66,321**	**17.5**
Overseas activity	6,504	4,198	54.9
Total	**307,472**	**271,428**	**13.3**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Corporate governance, other information about the Bank and its management" on the financial statements.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of non-accruing debts, credit risk and provision for credit losses in reported amounts (NIS in millions):

Reported amounts (NIS in millions)								**Credit risk(1)**
	As of December 31, 2022				**As of December 31, 2021 (6)**			
	Commercial	**Residential**	**Individual**	**Total**	**Commercial**	**Residential**	**Individual**	**Total**
Credit risk at performing credit rating(2)								
On-balance sheet credit risk	84,735	194,691	25,993	305,419	71,349	173,576	24,400	269,325
Off-balance sheet credit risk(3)	51,915	11,349	14,475	77,739	51,173	19,769	13,823	84,765
Total credit risk at performing credit rating	**136,650**	**206,040**	**40,468**	**383,158**	**122,522**	**193,345**	**38,223**	**354,090**
Credit risk other than at performing credit rating								
A. Non-problematic	2,949	820	324	4,093	2,440	882	281	3,603
B. Problematic accruing	1,205	-	167	1,372	734	1,300	137	2,171
C. Problematic non-accruing	1,228	1,329	55	2,612	1,238	-	56	1,294
Total on-balance sheet credit risk other than at performing credit rating	**5,382**	**2,149**	**546**	**8,077**	**4,412**	**2,182**	**474**	**7,068**
Off-balance sheet credit risk(3) other than at performing credit rating	1,412	-	36	1,448	921	-	28	949
Total credit risk other than at performing credit rating	**6,794**	**2,149**	**582**	**9,525**	**5,333**	**2,182**	**502**	**8,017**
Of which: Accruing debts, in arrears 90 days or longer	69	-	44	113	26	1,300	26	1,352
Total credit risk, including risk to the public(4)	**143,444**	**208,189**	**41,050**	**392,683**	**127,855**	**195,527**	**38,725**	**362,107**
Non-performing assets(5)	**1,228**	**1,329**	**55**	**2,612**	**1,238**	**-**	**56**	**1,294**

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) On- and off-balance sheet credit risk, including with respect to derivatives. Of which: Debts, bonds, securities loaned or purchased in resale agreements.
(5) Assets not accruing interest.
(6) Comparative figures in this table were calculated in conformity with directives applicable through December 31, 2021, with their presentation adapted in as much as possible to the new disclosure format. Note that the classification "Non-accruing" with regard to residential mortgages only applies as from 2022.

For more information about credit risk with respect to individuals (excluding residential mortgages), credit risk in the construction and real estate economic sector in Israel and residential mortgage risk, see chapter "Credit risk" below and chapter "Credit risk" of the 2022 Risks Report available on the Bank website. For more information see also Notes 13 and 30 to the financial statements.

Benchmarks for analysis of quality of loans to the public, expenses and provision for credit losses[1] (in percent):

	As of December 31, 2022				As of December 31, 2021			
	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Analysis of quality of loans to the public								
Non-accruing credit as percentage of total loans to the public	1.37	0.68	0.21	0.83	1.64	-	0.23	0.46
Non-accruing credit in arrears 90 days or longer as percentage of total loans to the public	1.45	0.68	0.37	0.87	1.68	0.74	0.33	0.96
Problematic credit as percentage of total loans to the public	2.76	0.68	0.84	1.27	2.64	0.74	0.78	1.25
Credit not at performing credit rating as percentage of total loans to the public	7.81	1.09	2.19	3.07	7.31	1.24	2.02	2.93
Analysis of expenses with respect to credit losses for the reported period								
Expenses with respect to credit losses as percentage of average balance of loans to the public	0.41	0.05	0.38	0.18	(0.13)	(0.08)	(0.23)	(0.11)
Net accounting write-offs as percentage of average balance of loans to the public	0.25	-	0.26	0.09	0.11	-	0.19	0.05
Analysis of provision for credit losses with respect to loans to the public								
Provision for credit losses as percentage of total loans to the public	1.94	0.46	1.93	1.00	1.72	0.46	1.02	0.85
Provision for credit losses as percentage of total loans to the public non-accruing	141.7	67.9	930.9	120.5	105.3	-	453.6	185.3
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	133.9	67.9	517.2	115.4	103.0	61.8	309.8	89.0
Expense (revenue) rate with respect to credit losses from net accounting write-offs	1.66	-	1.45	1.98	(0.40)	(13.30)	(0.39)	(0.70)

(1) Comparative figures in this table were calculated in conformity with directives applicable through December 31, 2021, with their presentation adapted in as much as possible to the new disclosure format. Note that the classification "Non-accruing" with regard to residential mortgages only applies as from 2022.

Below is development of credit risk composition in the Group by borrower size (in percent):

	2022		2021	
Credit risk per borrower (NIS in thousands)	**Share of total Group credit risk**	**Share of total Group number of borrowers**	**Share of total Group credit risk**	**Share of total Group number of borrowers**
Up to 150	8.5	70.2	9.3	70.9
150-600	18.4	17.7	19.8	17.5
600-2,000	36.2	11.0	36.9	10.6
Above 2,000	36.9	1.1	34.0	1.0

Below is credit risk in major economic sectors with respect to borrower activity in Israel[1] (NIS in millions):

	2022		2021	
Economic sector	**Risk On-balance sheet credit[1]**	**Percentage of total risk On-balance sheet credit**	**Risk On-balance sheet credit[1]**	**Percentage of total risk On-balance sheet credit**
Individuals (including residential mortgages)	223,238	72.4	200,465	73.5
Construction and real estate	33,754	10.9	26,387	9.7
Financial services	10,816	3.5	9,636	3.5
Industry	9,765	3.2	7,800	2.9
Commerce	11,283	3.7	10,656	3.9
Other	19,446	6.3	17,723	6.5
Total	**308,302**	**100.0**	**272,667**	**100.0**

(1) Including credit and investments in bonds by the public, and other assets with respect to derivative instruments of the public.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investments in public bonds. Off-balance sheet credit risk includes guarantees and transactions in off-balance sheet instruments, commitments to extend credit and un-utilized credit facilities. Total credit risk to the public for the Bank Group as of December 31, 2022 amounted to NIS 393 billion, compared to NIS 362 billion as of December 31, 2021 – an increase by 8.6%.

Below is development of key balance sheet items of the Bank Group (NIS in millions):

		December 31	Change in % compared to December 31
	2022	2021	2021
Off-balance sheet financial instruments other than derivatives[(1)]:			
Unutilized debitory account and other credit facilities in accounts			
On-call, un-utilized	21,772	21,168	2.9
Guarantees to home buyers	19,069	16,582	15.0
Irrevocable commitments for loans approved but not yet granted	21,029	32,963	(36.2)
Unutilized revolving credit card facilities	11,730	10,643	10.2
Commitments to issue guarantees	8,122	9,351	(13.1)
Guarantees and other commitments	12,881	10,571	21.9
Loan guarantees	3,531	3,321	6.3
Documentary credit	315	430	(26.7)
Derivative financial instruments[(2)]:			
Total par value of derivative financial instruments	299,335	308,084	(2.8)
(On-balance sheet) assets with respect to derivative instruments	5,789	3,652	58.5
(On-balance sheet) liabilities with respect to derivative instruments	5,214	3,753	38.9

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 30 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

Securities – investment in securities increased in 2022 by NIS 0.1 billion. The increase in investment in securities is under asset and liability management by the Bank.

Below is composition of Group securities by portfolio (NIS in millions):

	Carrying amount	Amortized cost (for shares – cost)	Provision for credit losses	Gain from fair value adjustments	Loss from fair value adjustments	Fair value[(1)]
						December 31, 2022
Bonds held to maturity	3,514	3,514	–	–	(152)	3,362
Bonds available for sale	8,034	8,694	–	[(2)]66	[(2)](726)	8,034
Investment in shares not held for trading	632	584	–	[(3)]62	[(3)](14)	632
Securities held for trading	2,964	3,018	–	[(3)]5	[(3)](59)	2,964
Total securities	**15,144**	**15,810**	**–**	**133**	**(951)**	**14,992**
						December 31, 2021
Bonds held to maturity	2,934	2,934	–	66	(5)	2,995
Bonds available for sale	10,823	10,675	–	[(2)]192	[(2)](44)	10,823
Investment in shares not held for trading	706	574	–	[(3)]134	[(3)](2)	706
Securities held for trading	570	560	–	[(3)]17	[(3)](7)	570
Total securities	**15,033**	**14,743**	**–**	**409**	**(58)**	**15,094**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(3) Charged to statement of profit and loss but not yet realized.

Below is composition of Group securities portfolio by linkage segment (NIS in millions):

	Balance as of December 31		
	2022	**2021**	**Change in %**
Israeli currency			
Non-linked	6,645	6,728	(1.2)
CPI-linked	2,498	1,469	70.0
Foreign currency (including linked to foreign currency)	5,349	6,110	(12.5)
Non-monetary items	652	726	(10.2)
Total	**15,144**	**15,033**	**0.7**

Below is composition of Group securities portfolio by issuer type (NIS in millions):

	Carrying amount as of	
	December 31, 2022	**December 31, 2021**
Government bonds:		
Government of Israel	10,732	10,421
US Government	1,457	2,035
Total Government bonds	**12,189**	**12,456**
Bonds of financial institutions in Israel:		
Total bonds of financial institutions in Israel	**774**	**601**
Bonds of banks in developed nations:		
USA	119	48
South Korea	71	67
Other	72	62
Total bonds of banks in developed nations	**262**	**177**
Corporate bonds (by economic sector):		
Rental property	500	473
Power, gas, steam and air conditioning	165	179
Mining and excavation	95	95
Construction	97	57
Industrial – chemical industry	57	58
Other	298	205
Total corporate bonds	**1,212**	**1,067**
Asset-backed corporate bonds (ABS)		
Mining and excavation	53	4
Others	2	2
Total asset-backed corporate bonds (ABS)	**55**	**6**
Shares and other securities		
Investment in shares not held for trading	632	706
Of which: Shares for which no fair value is available(1)	389	414
Shares and other securities held for trading	20	20
Total shares and other securities	**652**	**726**
Total securities	**15,144**	**15,033**

(1) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.
(2) Includes exposure to multilateral development banks (MDB).

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its rate out of the amortized cost, see Note 12 to the financial statements.

Buildings and equipment – The balance of buildings and equipment decreased in 2022 by NIS 0.2 billion. The decrease in balance of buildings and equipment is primarily due to sale of real estate properties; For more information see "Significant Events in the Bank Group's Business" above.

Investments and expenses with respect to IT

Below is information about Bank Group investments and expenses with respect to IT.

Expenses with respect to IT as included on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2022				2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Expenses with respect to payroll and benefits [1]	333	64	8	405	317	62	6	385
Expenses with respect to use licenses not capitalized to assets [2]	164	8	-	172	152	9	-	161
Expenses with respect to outsourcing [3]	[6]329	9	9	347	[6]311	11	8	330
Expenses with respect to depreciation [4]	251	59	-	310	228	54	-	282
Other expenses [5]	75	13	-	88	52	9	-	61
Total expenses	**1,152**	**153**	**17**	**1,322**	**1,060**	**145**	**14**	**1,219**

Total cost with respect to IT, recognized as assets on the financial statement during the reported period

Additions to assets with respect to IT, not charged as expense (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2022				2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Cost with respect to payroll and benefits [1]	13	–	–	13	20	–	–	20
Cost with respect to purchase of use licenses [2]	41	28	–	69	75	59	–	134
Cost with respect to outsourcing [3]	141	–	–	141	142	–	–	142
Total	**195**	**28**	**–**	**223**	**237**	**59**	**–**	**296**

Balance of assets with respect to IT at end of the reported year

Balance of assets with respect to IT (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2022				2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total amortized balance	585	108	1	694	604	133	1	738
Of which: With respect to payroll and benefits	44	–	–	44	64	1	–	65

(1) Includes payroll of software and hardware professionals, and payroll of other IT staff, such as: management, administrative staff and operations staff. Payroll cost added to assets includes labor cost for development of software for own use, capitalized to assets in conformity with GAAP.

(2) Expenses primarily include current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation of buildings and equipment". Additions to assets are with respect to use licenses and purchase of licenses.

(3) Expenses are with respect to software and hardware maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation of buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees engaged by the Bank in development of software for own use.

(4) For more information about accounting policies for recognizing depreciation expenses, see Notes 1.D.9 and 16 to the financial statements.

(5) Includes expenses with respect to lease and taxes, communications, general and administrative expenses.

(6) As from January 1, 2017, Bank Yahav receives computer and operational services from an international Tata Group company. The company is specialized in providing IT services, including to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system, including banking services across multiple channels, based on the bank's operating segments. In 2022, the cost of service amounted to NIS 108 million (in 2021, the cost of service amounted to NIS 94 million).

Deposits from the public – these account for 80% of total consolidated balance sheet as of December 31, 2022, compared to 78% as of December 31, 2021. In 2022, deposits from the public increased by NIS 36.6 billion, an increase by 11.9%. Deposits from the public include deposits from retail customers, corporations, financial institutions and others.

Below is composition of deposits from the public by linkage segment (NIS in millions):

	Balance as of December 31			Percentage of total deposits from the public, net as of December 31	
Linkage segment	**2022**	**2021**	**Change in %**	**2022**	**2021**
Israeli currency					
Non-linked	260,411	233,149	11.7	75.6	75.7
CPI-linked	21,767	21,503	1.2	6.3	7.0
Foreign currency, including linked to foreign currency	62,336	53,272	17.0	18.1	17.3
Total	**344,514**	**307,924**	**11.9**	**100.0**	**100.0**

Below is data about composition of deposits from the public by supervisory operating segment (NIS in millions):

	As of December 31		Change rate
	2022	**2021**	**(In %)**
Private individuals:			
Households – other	125,823	118,051	6.6
Private banking	25,755	21,664	18.9
Total individuals	**151,578**	**139,715**	**8.5**
Business operations:			
Small and micro businesses	55,805	50,247	11.1
Medium businesses	13,570	15,742	(13.8)
Large businesses	39,636	36,669	8.1
Institutional investors	75,938	61,365	23.7
Total business activity	**184,949**	**164,023**	**12.8**
Overseas activity	7,987	4,186	90.8
Total	**344,514**	**307,924**	**11.9**

Below is the evolution of deposits from the public for the Group by depositor size (NIS in millions):

	For the year ended December 31	
	2022	**2021**
Maximum deposit (NIS in millions)		
Up to 1	99,561	95,170
Over 1 to 10	86,771	78,746
Over 10 to 100	46,517	44,740
Over 100 to 500	35,348	36,591
Above 500	76,317	52,677
Total	**344,514**	**307,924**

Deposits from banks – The balance of deposits from banks as of December 31, 2022 amounted to NIS 7.0 billion, an increase by NIS 2 million compared to December 31, 2021.

For more information on the evolution of the composition of deposits from the public and the evolution of the composition of deposits from banks, see Notes 18 and 19 to the financial statements.

Bonds and subordinated notes – The balance of bonds and subordinated notes as of December 31, 2022 amounted to NIS 33.3 billion, a decrease by NIS 4.8 billion compared to the balance as of December 31, 2021. In 2022, bonds and subordinated notes were affected, inter alia, by issuance amounting to NIS 5.0 billion, early redemption of subordinated note (Series A) for NIS 2.1 billion, early redemption of CoCo subordinated notes for NIS 0.3 billion, early redemption of CoCo subordinated notes (Series 47) for NIS 0.75 billion and current maturities. For more information see chapter "Developments in financing sources" above.

For more information about balances of Bank Group assets and liabilities in the interim periods, see multi-quarter information in appendixes to the annual report.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of December 31, 2022 amounted to NIS 23.8 billion, compared to NIS 20.8 billion as of December 31, 2021, an increase by 14.5%.

Below is composition of shareholder equity (NIS in millions):

	As of December 31		Rate of Change
	2022	2021	(In %)
Share capital and premium[1]	3,519	3,497	0.6
Capital reserve from benefit from share-based payment transactions	99	76	30.3
Cumulative other comprehensive loss[2][3]	(514)	(303)	69.6
Retained earnings[4]	20,676	17,500	18.1
Total	**23,780**	**20,770**	**14.5**

(1) For more information about share issuance, see Statements of Changes in Shareholders' Equity.
(2) For more information about other comprehensive income (loss), see Consolidates Statement of Comprehensive income and Note 10 to the financial statements.
(3) Includes actuarial obligation with respect to streamlining program for employee retirement, see Notes 22 and 25 to the financial statements.
(4) For more information about development of cumulative revenues and expenses to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

The ratio of shareholders' equity to total assets for the Group as of December 31, 2022 was 5.55%, compared to 5.29% as of the end of 2021.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in conformity with Basel rules, as stipulated in Proper Conduct of Banking Business Directives 201-211. The Bank applies the standard approach to assess exposure to credit risk, operating risk and market risk.

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

Tier I capital primarily includes capital components attributed to shareholders of the Bank (accounting capital on the books) and non-controlling interest, and is the primary loss-absorption component.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of December 31, 2022, the Bank had no capital instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event). For more information about issue of bonds and contingent subordinated notes (Contingent Convertibles – CoCo) in 2022, see chapter "Developments in financing sources" above.

Subordinated notes, recognized as Tier II capital instruments in conformity with the previous directives, do not qualify as supervisory capital in conformity with current directives (primarily due to lack of loss-absorption mechanism) were amortized over the term of transition provisions, through January 1, 2022.

Capital planning at the Bank

Capital planning in the normal course of business – The Bank prepares a detailed multi-annual forecast for capital planning, taking into account the following: Expected growth rate of risk assets and profitability, the strategic plan, dividend distribution policy, capital and leverage targets, appropriate safety margins and other factors.
The Bank regularly monitors actual vs. forecast results, and revises the forecast as needed, considering any required action to comply with the specified capital targets.

As part of capital management at the Bank, in March 2022 the Bank conducted, for the first time ever in Israel, a transaction whereby the Bank obtained insurance coverage from an international insurer for part of the residential mortgage portfolio. Obtaining this insurance has allowed the Bank to reduce the capital allocation with respect to the insured portfolio, based on the quality rating of the insurer, thereby making capital available, *inter alia*, for expansion of Bank business. Later, in June 2022, another similar transaction was conducted.

Sensitivity of Bank capital adequacy ratio to changes in Tier I equity and risk assets is as follows:

Changes to Tier I equity by NIS 100 million would cause a change in Tier I capital adequacy ratio by 0.04%. Change in risk assets by NIS 1 billion would cause a change in Tier I capital adequacy ratio by 0.04%.

Internal capital assessment process – As part of this process, the Bank reviews for existence of a sufficient capital absorption cushion to address the diverse risks associated with Bank operations, including stress scenarios.

The planning horizon is three years, during which the Bank challenges the capital planning using a range of stress scenarios that significantly impact Bank profitability, erode Bank capital and increase its risk assets. Results of the Bank's most recent capital planning indicate that the capital absorption buffer included in the minimum capital requirement in conformity with Bank of Israel directives is sufficient.

Consequently, the Bank stipulated that the Bank's target Tier I capital for capital planning would be as required by directives of the Supervisor of Banks, plus appropriate safety margins.

For more information see the 2022 Risks Report available on the Bank website.

Capital adequacy target

The Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Conduct of Banking Business Directives 201-211. As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. Calculation of total capital and total risk components is set forth in the directives.

An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date.

Accordingly, the minimum Tier I equity ratio required of the Bank as of the reporting date is 9.60%, and the minimum total capital ratio required of the Bank as of the reporting date is 12.5%.

For more information about the revision of calculation of the loan repayment to income ratio (PTI), see Note 25 to the financial statements.

For more information about the circular concerning capital requirement with respect to loans to finance land, see Note 25 to the financial statements.

For more information about issue and redemption of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 25 to the 2022 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend) below.

Below is calculation of capital adequacy ratio (NIS in millions):

	As of December 31	
	2022	**2021**
Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	25,072	21,969
Tier I capital	25,072	21,969
Tier II capital	8,015	7,914
Total capital	33,087	29,883
Weighted risk asset balances		
Credit risk	234,383	202,611
Market risks	1,301	2,268
Operational Risk	16,567	13,831
Total weighted risk asset balances	252,251	218,710

Below is development of ratio of capital to risk assets for the Group (in percent):

	As of December 31	
	2022	2021
Ratio of Tier I equity to risk components	9.94	10.04
Ratio of Tier I capital to risk components	9.94	10.04
Ratio of total capital to risk components	13.12	13.66
Minimum Tier I equity ratio required by Supervisor of Banks	9.60	8.60
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.50	12.50
2. Significant subsidiaries (in %)		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	10.51	9.85
Ratio of total capital to risk components	13.45	13.49
Minimum Tier I equity ratio required by Supervisor of Banks	9.00	8.00
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.50	12.50
Union Bank Le-Israel Ltd. and its subsidiaries(1)		
Ratio of Tier I equity to risk components	–	16.28
Ratio of total capital to risk components	–	19.40
Minimum Tier I equity ratio required by Supervisor of Banks	–	8.43
Total minimum capital ratio required by the directives of the Supervisor of Banks	–	12.50

(1) On December 29, 2022, the merger of Union Bank with and into the Bank was completed.

Below is composition of risk assets and capital requirements with respect to credit risk by exposure group (NIS in millions):

	As of December 31, 2022		As of December 31, 2021	
Exposure group	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(1)**
Debts of sovereigns	29	4	99	12
Debts of public sector entities	371	46	556	70
Debts of banking corporations	1,748	219	1,475	184
Debts of securities companies	928	116	287	36
Debts of corporations	78,486	9,811	61,969	7,746
Debts secured by commercial property	5,226	653	6,099	762
Retail exposures to individuals	20,935	2,617	19,412	2,427
Loans to small businesses	10,209	1,276	9,776	1,222
Residential mortgages	106,008	13,251	93,992	11,749
Other assets	9,213	1,152	8,417	1,052
Total credit risk	**233,153**	**29,145**	**202,082**	**25,260**

Below are risk assets and capital requirements with respect to credit market risk, CVA risk and operational risk (NIS in millions):

	December 31, 2022		December 31, 2021	
Exposure group	**Weighted risk asset balances**	**Capital requirement(1)**	**Weighted risk asset balances**	**Capital requirement(1)**
Market risk	1,301	163	2,268	284
CVA risk(2)	1,230	154	529	66
Operational Risk(3)	16,567	2,071	13,831	1,729
Total	19,098	2,388	16,628	2,079
Total risk assets	252,251	31,533	218,710	27,339

(1) Capital requirement in conformity with required overall minimum capital ratio of 12.5%
(2) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(3) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218 regarding "Leverage ratio" (hereinafter: "the Directive"). The directive stipulates a simple, transparent leverage ratio which is not risk-based, to serve as a reliable, additional measure to risk-based capital requirements, which is intended to limit the accumulation of leverage at banking corporations.

The leverage ratio, in percent, is defined as the ratio of capital measure to exposure measure. Capital for measurement of the leverage ratio is Tier I capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the stipulated transitional provisions. Total exposure measurement for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items. In general, this measurement is consistent with accounting values, and for this reason no risk weightings are taken into account. Furthermore, the Bank may not use physical or financial collateral, guarantees nor other techniques to mitigate credit risk in order to reduce exposure measurement, unless specifically allowed by the directive. Balance sheet items deducted from Tier I capital (pursuant to Directive 202) are deducted from the exposure measure. In conformity with the directive, the Bank calculates the exposure with respect to derivatives in conformity with Appendix C of Proper Conduct of Banking Business Directive 203, and exposures with respect to off-balance sheet items by converting the notional amount of such items into credit conversion factors, as set forth in Proper Conduct of Banking Business Directive 203.

In conformity with the Directive, banking corporations shall maintain a leverage ratio of 5% or higher on consolidated basis.

On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change.

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

The Bank's leverage ratio as of December 31, 2022 is 5.42%, compared to 5.18% as of December 31, 2021.

See Note 25 to the financial statements for additional information.

Below is the Bank's leverage ratio:

	As of December 31	
	2022	**2021**
1. Consolidated data		
Tier I capital	25,072	21,969
Total exposure	463,010	423,950
		In %
Leverage ratio	5.42	5.18
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	6.08	5.55
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
Union Bank Le-Israel Ltd. and its subsidiaries[(1)]		
Leverage ratio	–	8.37
Minimum leverage ratio required by the Supervisor of Banks	–	4.50

(1) On December 29, 2022, the merger of Union Bank with and into the Bank was completed.

Dividends

Dividend distribution policy

In conformity with resolution by the Bank Board of Directors dated February 26, 2018, it is the Bank's dividends policy to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to Bank shareholders, subject to Bank compliance with a ratio of Tier I capital to risk components as required by the Supervisor of Banks, and to maintaining appropriate safety margins.

Note that in conformity with the aforementioned dividends policy, the Bank may buy-back Bank shares, subject to the foregoing. Note that buy-back of Bank shares, as noted above, shall be considered a "distribution", as defined in the Corporate Law, 1999 and would therefore reduce any dividends amount to be distributed by the Bank pursuant to the dividends policy. "Distribution" pursuant to the dividends policy (both dividends distribution and share buy-back), as noted above, in conformity with Board resolutions in this regard, as passed from time to time and subject to statutory provisions, including restrictions stipulated by the Supervisor of Banks.

Under the five-year strategic plan for 2021-2025, approved by the Board of Directors on April 26, 2021, the Board of Directors shall monitor execution of the new strategic plan, in order to consider potential increase of the dividends rate up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I equity to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

Note that the aforementioned dividends policy does not constitute any resolution nor commitment to make any dividends distribution, and that any "distribution" would be subject to approvals as required by law, including approval of the distribution by the Board of Directors, all at the discretion of the Board of Directors and subject to all statutory provisions.

Dividend distribution

Dividends declared

Below is information about dividend distributions by the Bank since 2020 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 24, 2020	March 11, 2020	74.89	0.40	176.0
Total dividend distributions in 2020[(3)]				**176.0**
August 16, 2021	August 31, 2021	188.99	[(1)]0.30	483.0
November 15, 2021	November 30, 2021	293.47	[(2)]0.30	752.7
Total dividends distributed in 2021[(4)]				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022[(5)]				**940.9**

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2020 earnings – NIS 483.0 million.
(4) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(5) Total dividends distributed with respect to 2022 earnings – NIS 669.3 million.

Dividends declared with respect to earnings in the fourth quarter of 2022

On March 13, 2023, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 326.1 million, or 30% of earnings in the fourth quarter of 2022, in conformity with the Bank's dividend policy, and in order to support future growth of the Bank in view of developments in the macro-economic environment.

The dividends are 1127.9% of issued share capital, i.e. NIS 1.12679 per NIS 0.1 par value share. The effective date for dividends payment is March 21, 2023 and the payment date is March 28, 2023. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Other off-balance sheet activity

Below is development of off balance sheet monetary assets held on behalf of Bank Group customers, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

	As of December 31		Change rate
	2022	2021	(In %)
Securities[1]	497,639	545,852	(8.8)
Assets of provident funds for which the Group provides operating services	129,887	125,960	3.1
Assets held in trust by Bank Group	81,610	78,783	3.6
Assets of mutual funds for which the Group provides operating services	12,663	13,564	(6.6)
Other assets under management[2]	21,201	17,732	19.6

(1) Value of securities portfolios for which the Bank is custodian, held by customers, including securities of provident funds and mutual funds for which the Group provides operating services. Note that customer activity as presented includes, in addition to securities of mutual funds as aforesaid, also the value of participation units in said mutual funds held by Bank customers.

(2) Including:

- Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. The Bank receives margin or commission revenues with respect to these balances.
- Other loans managed by the Bank, including residential mortgages managed and operated by the Bank on behalf of others.

Description of Bank Group business by supervisory operating segment

Supervisory operating segments

According to the public reporting directive regarding supervisory operating segments, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for customers (annual sales or annual revenues).
Supervisory operating segments are divided into operating segments of individuals and operating segments of business customers other than individuals (including institutional investors and financial management of the Bank).
Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.
The Bank's operating segment using the "management approach" are based on customer assignment to the responsible organizational unit in the elapsed period.
However, customer attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 29 to the financial statements.
The attributes specified by management for customer assignment to the responsible division are highly correlated with supervisory definitions.
However, in some cases it may be that by the "management approach", the final assignment of the customer is based on other parameters, such as: A particular unit specializing in customer activity type or experienced gained working with the customer, which provides business and service advantages to assigning the customer to that specific division.
Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory segment definition.
- Summary qualitative description of the segment (by Management Approach)
- Explanation of differences between "supervisory" definition and how business is actually managed (under "management approach").
- Segment financial results (under "supervisory approach").

For detailed description of segments, see chapter "Corporate governance" in this annual report.

Financial results by Management Approach are presented in Note 29 to the financial statements.

Below are summary financial results of supervisory operating segments (NIS in millions):

	Net profit		Percentage of total net profit	
	For the year ended December 31		For the year ended December 31	
	2022	2021	2022	2021
Private individuals:				
Households – residential mortgages	1,023	1,118	22.9	35.1
Households – other	189	(61)	4.2	-
Private banking	113	51	2.5	1.6
Total individuals	**1,325**	**1,108**	**29.6**	**34.8**
Business operations:				
Small and micro businesses	683	544	15.3	17.1
Medium businesses	131	123	2.9	3.9
Large businesses	334	248	7.5	7.8
Institutional investors	58	18	1.3	0.6
Total business activity	**1,206**	**933**	**27.0**	**29.3**
Financial management	1,830	1,028	40.9	32.2
Total activity in Israel	**4,361**	**3,069**	**97.5**	**96.3**
Overseas activity	111	119	2.5	3.7
Total	**4,472**	**3,188**	**100.0**	**100.0**

For more information about operating results in conformity with the management approach, see Note 29 to the financial statements.

Household Segment

Supervisory definition

According to the supervisory definition, the household segment includes individuals other than customers included under the private banking segment. That is to say, this segment excludes individuals with total financial assets in excess of NIS 3 million. Individuals are defined as individuals that have no indebtedness towards the Bank, or whose indebtedness is classified under "Private individuals – residential mortgages" and "Private individuals – other", in conformity with definitions for classification of credit risk by economic sector.

Summary description of the segment (by Management Approach)

The household segment consists of individual customers with low indebtedness and relatively low activity in monetary terms. Segment customers include customers with individual accounts, joint accounts of spouses and so forth, as well as mortgage customers. This segment is highly diversified and is handled by the Bank's Retail Division.

Differences between management approach and supervisory definition

- Certain individual customers classified under the private banking segment according to the management approach, are classified under the household segment according to the supervisory segment approach. The difference is primarily due to total financial assets of the customers used for customer classification – the Bank threshold for classification of customers by the management approach is NIS 1 million, lower than the supervisory definition.
- In general, individual customers are assigned to the household segment. According to the supervisory approach, individual customers with high indebtedness or with business features are classified under business operating segments, rather than under the household segment.

Developments in the household segment in this period

- In 2022, public efforts continued to promote entry of non-bank entities into competition for the household segment, and to increase competition for consumer credit. Along with the Increased Competition and Reduced Concentration in Israeli Banking Law, there are several legislative and regulatory efforts under way, resulting in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, which is making progress in accordance with the specified milestones.
- In 2022, branch closures continued more moderately than in previous years, as did elimination of teller stations at branches of some banks, with customers referred to digital solutions. In this regard, and in conformity with legislation dated August 2016 of the Banking Law (Licensing) (Amendment no. 22), 2016 – a banking corporation wishing to close a permanent branch is required to obtain the Supervisor of Banks' approval, after submitting a written, justified request to do so.
- As for credit cards, regulatory changes continued, derived *inter alia* from implementation of the Increased Competition and Reduced Concentration in the Banking Market in Israel Law. In 2019, credit card issuers were separated from the banks, and in late 2022, the Committee for Review of Competition in the Credit Market recommended that CAL be separated from Israeli Discount Bank.

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

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the household segment

	For the year ended December 31					
	2022			2021		
	NIS in millions					
	Other	**Residential mortgages**	**Total**	**Other**	**Residential mortgages**	**Total**
Profit and profitability						
Total interest revenues, net	2,191	2,550	4,741	1,436	2,263	3,699
Non-interest financing revenues	-	-	-	1	-	1
Commissions and other revenues	802	83	885	699	143	842
Total revenues	**2,993**	**2,633**	**5,626**	**2,136**	**2,406**	**4,542**
Expenses (reduction of expenses) with respect to credit losses	97	99	196	(55)	(133)	(188)
Operating and other expenses	2,444	988	3,432	2,205	835	3,040
Profit before provision for taxes	452	1,546	1,998	(14)	1,704	1,690
Provision for taxes	153	523	676	(5)	586	581
After-tax profit	**299**	**1,023**	**1,322**	**(9)**	**1,118**	**1,109**
Net profit (loss):						
Attributable to non-controlling interests	(110)	-	(110)	(52)	-	(52)
Attributable to shareholders of the banking corporation	**189**	**1,023**	**1,212**	**(61)**	**1,118**	**1,057**
Balance sheet – key items:						
Loans to the public (end balance)	27,559	196,717	224,276	26,184	175,626	201,810
Loans to the public, net (end balance)	27,064	195,820	222,884	25,948	174,822	200,770
Deposits from the public (end balance)	125,823	-	125,823	118,051	-	118,051
Average balance of loans to the public	25,473	188,681	214,154	24,262	165,384	189,646
Average balance of deposits from the public	122,240	-	122,240	117,274	-	117,274
Average balance of risk assets	23,125	108,389	131,514	22,835	96,065	118,900
Credit spreads and deposit spreads:						
Margin from credit granting operations	1,011	2,358	3,369	958	2,152	3,110
Margin from activities of receiving deposits	1,164	-	1,164	450	-	450
Other	16	192	208	28	111	139
Total interest revenues, net	**2,191**	**2,550**	**4,741**	**1,436**	**2,263**	**3,699**

Net profit attributable to the household segment in 2022 amounted to NIS 1,212 million, compared to NIS 1,057 million in the corresponding period last year. The increase was primarily due to increase in total revenues, offset by increase in expenses with respect to credit losses.

Net profit attributable to residential mortgage operations in the household segment (according to supervisory definitions) in 2022 amounted to NIS 1,023 million, compared to NIS 1,118 million in the corresponding period last year.

Financing revenues, net from residential mortgage operations in the household segment amounted to NIS 2,550 million, compared to NIS 2,263 million in the corresponding period last year. The increase was primarily due to increase in residential mortgages. Conversely, expenses with respect to credit losses amounted to NIS 99 million, compared to revenues of NIS 133 million in the corresponding period last year. The revenues in the previous year were due to decrease in the group-based provision, against the background of improved macro-economic data, recovery from the Corona Virus crisis and decrease in loan amount subject to repayment deferral due to the Corona Virus crisis.

Net profit attributable to household operations (other than residential mortgages) in 2022 amounted to NIS 189 million, compared to a loss of NIS 61 million in the corresponding period last year.

The increase is primarily due to increase in financing revenues, net, which amounted to NIS 2,191 million, compared to NIS 1,436 million in the corresponding period last year, primarily due to increase in deposits and to increase in Bank of Israel interest rates. In average credit balance compared to 2021, and to increase in the Bank of Israel interest rate. The increase was offset by expenses with respect to credit losses, which in 2022 amounted to NIS 97 million, compared to revenues of NIS 55 million in the corresponding period last year. The revenues in the previous year were due to decrease in the group-based provision, against the background of improved macro-economic data and recovery from the Corona Virus crisis.

The increase in commissions and other revenues and in operating expenses is due to growth in current operations.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Private Banking Segment

Supervisory definition

According to the supervisory definition, the private banking segment includes individuals whose financial asset portfolio at the Bank (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.

Summary description of the segment (by Management Approach)

The private banking segment provides banking services in Israel to Israeli and foreign resident customers. Private banking is a concept of banking service for customers with high net worth, some of whose activity is part of financial asset management. Private banking customers are primarily individual customers with liquid deposits and investments in securities over NIS 3 million.

Financial advice, which is part of the service offered in this operating segment, is provided to segment customers who have signed an advisory agreement. Moreover, a solution is offered for other financial needs of these customers, while providing personal service of the highest quality and offering diverse advanced products.

This segment has the potential for expanding business relations with customers, who are from a high socio-economic ranking and who require professional, personalized service that is highly available.

Differences between management approach and supervisory definition

- Certain individual customers classified under the private banking segment according to the management approach, are classified under the household segment according to the supervisory segment approach. The difference is primarily due to total financial assets of the customers used for customer classification – the Bank threshold for classification of customers by the management approach is NIS 1 million, lower than the supervisory definition.
- According to management approach, the private banking segment also includes businesses with liquid assets in excess of NIS 8 million. According to the supervisory segment approach, these customers are classified under business operating segments.

Developments in the private banking segment in this period

Over the past year there were no material developments in markets, nor material changes in attributes of customers in the private banking segment.

For more information and detailed description with information about products and services, primary markets and distribution methods and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the private banking segment

	For the year ended December 31	
	2022	**2021**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	172	81
Non-interest financing revenues	-	-
Commissions and other revenues	17	23
Total revenues	**189**	**104**
Expenses (reduction of expenses) with respect to credit losses	-	(1)
Operating and other expenses	18	28
Profit before provision for taxes	171	77
Provision for taxes	58	26
Net profit	**113**	**51**
Balance sheet – key items:		
Loans to the public (end balance)	154	141
Loans to the public, net (end balance)	153	139
Deposits from the public (end balance)	25,755	21,664
Average balance of loans to the public	143	203
Average balance of deposits from the public	23,325	20,947
Average balance of risk assets	66	98
Credit spreads and deposit spreads:		
Margin from credit granting operations	1	1
Margin from activities of receiving deposits	167	72
Other	4	8
Total interest revenues, net	**172**	**81**

Net profit attributable to the private banking segment in 2022 amounted to NIS 113 million, compared to NIS 51 million in the corresponding period last year. The increase was due to increase in interest revenues, net, primarily due to increase by 11.4% in average balance of deposits in this segment, and to increase in the Bank of Israel interest rates.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Small and micro business segment

Supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Summary description of the segment (by Management Approach)

The small and micro business segment is under responsibility of the Retail Division, primarily consisting of small companies and small business customers with annual turnover below NIS 10 million (micro business) or annual turnover from NIS 10 million to NIS 50 million (small business). Based on Management Approach, in some cases customers may cross the turnover threshold but still remain served by the Retail Division.

This segment has a highly diversified customer base. Given that data availability and quality with regard to customers in this segment is inferior to that of large business customers, professional care and appropriate controls are required in order to assess the customer quality for extending credit. Moreover, this segment features a high collateral rate required from customers to secure credit repayment.

Differences between management approach and supervisory definition

- According to management approach, business customers with liquid assets in excess of NIS 8 million are assigned to the private banking segment. According to the supervisory segment approach, these customers are classified under small and micro business segment based on their annual business turnover.
- Business customers currently attributed to commercial banking using the management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Developments in the small and micro business segment in this period

The trend of increased competition among banks in the small business segment continued to accelerate over the past year. Moreover, several public measures were applied to promote entry of non-bank entities to lending to small businesses.

Changes to customer attributes in this segment

This segment has a highly diversified customer base and a high collateral rate required from customers to secure credit repayment.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the small and micro business segment

	For the year ended December 31	
	2022	2021
	NIS in millions	
Profit and profitability		
Total interest revenues, net	1,858	1,363
Non-interest financing revenues	-	1
Commissions and other revenues	564	543
Total revenues	**2,422**	**1,907**
Expenses (reduction of expenses) with respect to credit losses	113	(71)
Operating and other expenses	1,261	1,140
Profit before provision for taxes	1,048	838
Provision for taxes	355	288
Profit after tax	**693**	**550**
Net profit attributed to non-controlling interests	(10)	(6)
Net profit attributable to shareholders of the banking corporation	**683**	**544**
Balance sheet – key items:		
Loans to the public (end balance)	35,147	30,744
Loans to the public, net (end balance)	34,152	30,245
Deposits from the public (end balance)	55,805	50,247
Average balance of loans to the public	33,520	30,459
Average balance of deposits from the public	54,974	47,118
Average balance of risk assets	30,550	27,504
Credit spreads and deposit spreads:		
Margin from credit granting operations	1,311	1,182
Margin from activities of receiving deposits	480	124
Other	67	57
Total interest revenues, net	**1,858**	**1,363**

Net profit attributable to the small and micro businesses segment in 2022 amounted to NIS 683 million, compared to NIS 544 million in the corresponding period last year. The increase was primarily due to increase in total revenues, as set forth below, offset by increase in expenses with respect to credit losses compared to the year-ago period.

Financing revenues, net amounted to NIS 1,858 million, compared to NIS 1,363 million in the corresponding period last year; the increase was primarily due to increase in loans and deposits. Conversely, expenses with respect to credit losses increased, amounting to NIS 113 million, compared to revenues of NIS 71 million in the corresponding period last year. The revenues in the previous year were due to decrease in the group-based provision, against the background of improved macro-economic data and recovery from the Corona Virus crisis.

The increase in commissions, other revenues and in operating expenses is due to growth in current operations.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Medium business segment

Supervisory definition

The medium business segment includes businesses with annual turnover from NIS 50 million to NIS 250 million.

Summary description of the segment (by Management Approach)

The medium business segment primarily consists of Middle Market private and public companies, with annual turnover between NIS 30-120 million.
Customers of this segment are served by the Corporate Division of the Bank, primarily by the Business sector, which operates via three business centers located throughout Israel.
In recent years, new customers are classified under this segment in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.
Segment customers operating primarily in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Customers of this segment, across all economic sectors, are characterized by the range of banking services they consume and by the high collateral rate required, which is typically higher than that required from customers of the business banking segment.

Differences between management approach and supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking customers (under management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business customers attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.
- In general, in recent years new customers are classified in conformity with the supervisory definition, resulting in better alignment of the management approach with the supervisory approach, as noted above.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the medium business segment

	For the year ended December 31	
	2022	2021
	NIS in millions	
Profit and profitability		
Total interest revenues, net	457	337
Non-interest financing revenues	-	(2)
Commissions and other revenues	99	114
Total revenues	**556**	**449**
Expenses with respect to credit losses	94	22
Operating and other expenses	264	239
Profit before provision for taxes	198	188
Provision for taxes	67	65
Net profit	**131**	**123**
Balance sheet – key items:		
Loans to the public (end balance)	12,902	10,066
Loans to the public, net (end balance)	12,704	9,848
Deposits from the public (end balance)	13,570	15,742
Average balance of loans to the public	11,526	8,958
Average balance of deposits from the public	14,044	15,525
Average balance of risk assets	13,610	11,927
Credit spreads and deposit spreads:		
Margin from credit granting operations	337	285
Margin from activities of receiving deposits	97	42
Other	23	10
Total interest revenues, net	**457**	**337**

Net profit attributable to the medium businesses segment in 2022 amounted to NIS 131 million, compared to NIS 123 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, which was offset by increase in expenses with respect to credit losses.

Interest revenues, net amounted to NIS 457 million, compared to NIS 337 million in the corresponding period last year. The increase was primarily due to increase in loans and to increase in the Bank of Israel interest rate.

The increase in operating expenses was due to growth in current operations.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Large business segment

Supervisory definition

The large business segment includes businesses with annual turnover in excess of NIS 250 million.

Summary description of the segment (by Management Approach)

This segment provides all banking and financial services to the largest companies in the market, operating across diverse industries, with annual turnover in excess of NIS 120 million.

In recent years, new customers are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

Customers of this segment are served by the Corporate Division of the Bank, primarily by the Big Corporations sector.

Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

In operations of this segment, the Bank emphasizes expansion of the current customer base and improving margins by expanding operations in diverse financial areas, with high margins relative to capital, such as trading room transactions, including transactions in derivatives and other products, conducted in the trading room on behalf of customers.

Differences between management approach and supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking customers (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors, which according to management approach are managed under business banking, are presented as a separate segment according to supervisory operating segments.
- In general, in recent years new customers are classified in conformity with the supervisory definition, except for institutional investors, as noted above, resulting in better alignment of the management approach with the supervisory approach, as noted above.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the large business segment

	For the year ended December 31	
	2022	**2021**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	802	585
Non-interest financing revenues (expenses)	-	5
Commissions and other revenues	190	160
Total revenues	**992**	**750**
Expenses (reduction of expenses) with respect to credit losses	101	(7)
Operating and other expenses	386	379
Profit before provision for taxes	505	378
Provision for taxes	171	130
Net profit	**334**	**248**
Balance sheet – key items:		
Loans to the public (end balance)	28,779	23,574
Loans to the public, net (end balance)	28,519	23,289
Deposits from the public (end balance)	39,636	36,669
Average balance of loans to the public	27,131	20,838
Average balance of deposits from the public	37,382	36,129
Average balance of risk assets	37,854	30,618
Credit spreads and deposit spreads:		
Margin from credit granting operations	602	490
Margin from activities of receiving deposits	141	53
Other	59	42
Total interest revenues, net	**802**	**585**

Net profit attributable to the large businesses segment in 2022 amounted to NIS 334 million, compared to NIS 248 million in the corresponding period last year. The increase was primarily due to increase in total revenues, net, which was offset by increase in expenses with respect to credit losses.

Financing revenues, net amounted to NIS 802 million, compared to NIS 585 million in the corresponding period last year; the increase was primarily due to increase in loans and increase in interest rates. Conversely, expenses with respect to credit losses amounted to NIS 101 million, compared to revenues of NIS 7 million in the corresponding period last year. The revenues in the previous year were due to decrease in the group-based provision, against the background of improved macro-economic data and recovery from the Corona Virus crisis.

Commissions and other revenues amounted to NIS 190 million, compared to NIS 160 million in the corresponding period last year; the increase was primarily due to further increase in activity.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Institutional investors segment

Supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members which manage customer funds.

Summary description of the segment (by Management Approach)

This segment specializes in providing service to financial asset managers, incorporating the provision of diverse services to financial asset managers:

insurers, managers of provident funds, study funds and pension funds, managers of mutual funds, ETFs, stock exchange members and investment portfolio managers.

Segment operations include operation of the aforementioned financial assets and providing banking services to managers thereof.

Services include: asset revaluation, generating control reports, generating reports to authorities, book keeping, account management and management of provident fund member rights and calculating returns. Banking services also include credit of various types and transactions involving derivatives.

The Bank has agreements in place to provide operating services to provident fund management companies, some are an addendum to sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The department also provides comprehensive service to provident fund and mutual fund management companies.

Differences between management approach and supervisory definition

According to management approach, institutional investors are managed under business banking and under the financial management segment; According to supervisory operating segments, they are presented as a separate segment.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the institutional investors segment

	For the year ended December 31	
	2022	2021
	NIS in millions	
Profit and profitability		
Total interest revenues, net	239	109
Non-interest financing revenues	-	3
Commissions and other revenues	49	51
Total revenues	**288**	**163**
Reduced expenses with respect to credit losses	-	(32)
Operating and other expenses	201	168
Profit before provision for taxes	87	27
Provision for taxes	29	9
Net profit	**58**	**18**
Balance sheet – key items:		
Loans to the public (end balance)	2,559	2,960
Loans to the public, net (end balance)	2,556	2,939
Deposits from the public (end balance)	75,938	61,365
Average balance of loans to the public	1,925	1,777
Average balance of deposits from the public	65,945	53,355
Average balance of risk assets	2,280	2,295
Credit spreads and deposit spreads:		
Margin from credit granting operations	28	26
Margin from activities of receiving deposits	197	62
Other	14	21
Total interest revenues, net	**239**	**109**

Net profit attributable to the institutional investor segment in 2022 amounted to NIS 58 million, compared to NIS 18 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, which was offset by increase in expenses with respect to credit losses.

Interest revenues, net amounted to NIS 239 million, compared to NIS 109 million in the corresponding period last year; the increase was primarily due to increase in deposits and increase in Bank of Israel interest rates.

In 2022, there were no expenses with respect to credit losses, compared to revenues of NIS 32 million in the corresponding period last year.

The increase in commissions and other revenues and in operating expenses is due to growth in current operations.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Financial management segment

Supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.
Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.
Nostro activity – management of Bank investments in securities.
Asset and liability management – including investment in bonds available for sale and in bonds held to maturity, hedging using derivatives, ALM hedging, currency hedging of investments overseas.
Real investments – Investment in shares available for sale and in associated companies of businesses.
Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Summary description of the segment (by Management Approach)

Financial management at the Bank is carried out by the Finance Division. The financial management segment operates in Israel and overseas, in several major areas: management of all Bank assets and liabilities, management of the bond

portfolio, management of market risk exposures, liquidity management and Bank operations in the trading room on money and capital markets, in conformity with management viewpoint as to management of these activities.
Asset and liability management activities are carried out by the financial management sector, including management of sources and uses, market risk exposures – including management of liquidity, basis and interest risk, management of fund transfer prices ("FTP"), pricing of special financial transactions and management of the bond portfolio.
Trading is conducted by the trading room, including all Bank transactions in foreign currency, options, interest rate derivatives, securities in Israel and overseas and financial assets, where the counter-parties to these transactions are entities in Israel and overseas.
Nostro activity is conducted by a unit specialized in management of strategies for investment in securities on behalf of the Bank.

The division includes a unit tasked with managing relations with financial institutions and investors. This unit is responsible for all activities with overseas banks, including management of correspondent accounts, obtaining and providing diverse services and developing activities in support of Bank customer needs.

Segment activities are subject to the risk management policy applicable to this segment, and to limits imposed by the Board of Directors and management as to various exposure levels.

This segment also includes Bank activities in securities for the Bank itself (in the portfolio available for sale and in the portfolio held for trading), and as from September 30, 2020, also activities conducted at Union Bank. These activities, including at Union Bank, includes aligning the portfolio structure and composition with the business environment, with the state of capital markets in Israel and overseas, with limits on risk assets, while maintaining appropriate revenues and creating an anchor for future long-term revenues, within the risk appetite specified by the Board of Directors.

Differences between management approach and supervisory definition

According to management approach, institutional investors are managed under the financial management segment; According to supervisory operating segments, they are presented as a separate segment.

Developments in the financial management segment in this period

In 2022, segment activity was affected by the following:

- Revenues and expenses due to changes related to market curves.
- Higher inflation in Israel and world-wide.
- Activities involving securities.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results in the financial management segment

	For the year ended December 31	
	2022	2021
	NIS in millions	
Profit and profitability		
Total interest revenues, net	1,724	1,303
Non-interest financing revenues	754	385
Commissions and other revenues	844	467
Total revenues	**3,322**	**2,155**
Reduced expenses with respect to credit losses	-	(1)
Operating and other expenses	534	505
Profit before provision for taxes	2,788	1,651
Provision for taxes	943	569
After-tax profit	1,845	1,082
Share of banking corporation in earnings of associated companies	5	(10)
Net profit before attribution to non-controlling interests	1,850	1,072
Net profit attributed to non-controlling interests	(20)	(44)
Net profit attributable to shareholders of the banking corporation	**1,830**	**1,028**
Balance sheet – key items:		
Average balance of risk assets	12,910	11,971
Credit spreads and deposit spreads:		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	-	-
Other	1,724	1,303
Total interest expenses, net	**1,724**	**1,303**

Net profit attributable to the financial management segment in 2022 amounted to NIS 1,830 million, compared to NIS 1,028 million in the corresponding period last year. The increase was primarily due to increase in total revenues, net.

Interest revenues, net amounted to NIS 1,724 million, compared to NIS 1,303 million in the corresponding period last year. The increase was primarily due to the effect of changes in increase in the CPI between the periods.

Non-interest financing revenues amounted to NIS 754 million, compared to NIS 385 million in the corresponding period last year. The increase was primarily due to increase in effect of derivatives.

Commissions and other revenues amounted to NIS 844 million, compared to NIS 467 million in the corresponding period last year. The increase was primarily due to capital gain from realized real estate properties in the first quarter of 2022, amounting to NIS 371 million.

See also analysis of developments in financing revenues, under chapter "Material developments in revenues, expenses and other comprehensive income".

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Operating results overseas

Supervisory definition

Overseas activity of the Bank is presented separately, divided into activity by individuals and business activity.

Summary description of the segment (by Management Approach)

The Bank Group's international operations primarily include providing banking services to businesses overseas. The Group's international operations include: personal banking services, foreign trade financing local credit for purchase of real estate; financing for high-tech companies, commercial financing and participation in syndicated lending. Overseas international operations reports to the Corporate Division as from January 2021.

Differences between management approach and supervisory definition

Business customers and individual customers at overseas branches, classified under various operating segments based on the management approach, are classified under the overseas activity segment in disclosure of supervisory operating segments.

Business customers and individual customers at overseas branches are presented as a separate segment under supervisory operating segments, and according to management approach are managed under different operating segments – primarily private banking and corporate banking.

Developments in the overseas operations segment during the reported period

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to customer preferences.

For more information and detailed description with information about products and services, primary markets and distribution methods, business strategy and competition in this segment and changes there to, see chapter "Corporate governance" in this annual report.

Analysis of operating results of overseas operations

	For the year ended December 31 2022	2021
	NIS in millions	
Profit and profitability		
Total interest revenues, net	247	208
Non-interest financing revenues	-	8
Commissions and other revenues	26	34
Total revenues	**273**	**250**
Expenses with respect to credit losses	28	-
Operating and other expenses	77	69
Profit before provision for taxes	168	181
Provision for taxes	57	62
Net profit	**111**	**119**
Balance sheet – key items:		
Loans to the public (end balance)	6,539	4,236
Loans to the public, net (end balance)	6,504	4,198
Deposits from the public (end balance)	7,987	4,186
Average balance of loans to the public	5,293	3,552
Average balance of deposits from the public	5,603	4,067
Average balance of risk assets	6,882	5,010
Credit spreads and deposit spreads:		
Margin from credit granting operations	165	121
Margin from activities of receiving deposits	12	8
Other	70	79
Total interest revenues, net	**247**	**208**

Net profit attributable to the overseas operations segment in 2022 amounted to NIS 111 million, compared to NIS 119 million in the corresponding period last year.

Interest revenues, net amounted to NIS 247 million, compared to NIS 208 million in the corresponding period last year; the increase was primarily due to increase in loans extended.

Conversely, expenses with respect to credit losses increased, amounting to NIS 28 million, compared to no expenses with respect to credit losses in the corresponding period last year.

Furthermore, last year profit included capital gain amounting to NIS 14 million from sale of the subsidiary United Mizrahi Bank (Switzerland) Limited in the second quarter of 2021.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Principal investee companies

Contribution of investee companies to net operating profit in 2022 amounted to NIS 448 million, compared to NIS 326 million in 2021. These data include effects of changes in exchange rates on investment balances in overseas investee companies, covered by the Bank itself.

See below for details of the effect of investees. For more information see Note 29 to the financial statements (Operating Segments and Geographic Regions).

Union Bank Le-Israel Ltd. (hereinafter: " Union Bank")

On September 30, 2020, the transaction between controlling shareholders of Union Bank and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired against issuance of Mizrahi Tefahot shares and acquisition of the other shareholders' shares has been completed. On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank. For more information see chapter "Significant developments in management of Bank business" above.

Contribution of Union Bank to Group profit in 2022 amounted to NIS 199 million (in 2021: NIS 169 million), including other than current profit also capital gain from realized assets as well as NIS 216 million (similar amount in 2021) with respect to acquisition of Union Bank which is recognized on profit and loss over 5 years as from the fourth quarter of 2020.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav")

government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its customer base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the replacement license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual customers (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the replacement license, subject to policies of the Bank Yahav Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in 2022 amounted to NIS 140 million, compared with NIS 102 million in 2021. Net profit was primarily affected by increase in interest revenues, net, primarily due to increase in operations in the NIS-denominated segment. Net profit return on equity for Bank Yahav amounted in 2022 to 13.8%, compared to 11.2% in 2021. Bank Yahav's balance sheet total as of December 31, 2022 amounted to NIS 35,020 million, compared to NIS 33,759 million as of December 31, 2021, an increase by 3.7%. The balance of loans to the public, net as of December 31, 2022 amounted to NIS 11,912 million, compared to NIS 11,129 million as of December 31, 2021, an increase by 7.0%. The balance of deposits from the public as of December 31, 2022 amounted to NIS 31,103 million, compared to NIS 29,991 million as of December 31, 2021, an increase by 3.7%.

Tefahot Insurance Agency (1989) Ltd. (hereinafter: "Tefahot Insurance agency")

Tefahot Insurance agency is an insurance agency wholly-owned by the Bank, engaged in sale of life insurance and property insurance policies to mortgage customers of the Bank. Net profit of Tefahot Insurance Agency in 2022 amounted to NIS 82 million, compared to NIS 70 million in 2021. Net profit return on equity was 5.8% in 2022, compared to return of 5.5% in 2021.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in 2022 NIS 12 million, net – compared to loss of NIS 22 million in 2021. This includes profit amounting to NIS 8 million in 2022 (NIS 18 million in 2021) from operations of Mizrahi Tefahot Trust Company Ltd. (hereinafter: "Trust Company"). Profit of the Trust Company in 2021 included revenues from indemnification payouts received from insurers.

Investments in shares

The Bank manages nostro investments in shares. Shares in which the Bank invested are partially presented in the portfolio held for trading, and partially as shares not held for trading and as shares and other securities in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Under investments (which are not negotiable and have no available fair value), generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. Other investments (negotiable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank Group investments in shares as of December 31, 2022 amounted to NIS 779 million, compared to NIS 795 million as of December 31, 2021, as follows:

	As of December 31	
	2022	**2021**
	NIS in millions	
Under "securities not held for trading":		
Participation units in equity funds	189	119
Negotiable investments	219	339
Investments in corporations presented on cost basis	224	248
Total under "securities not held for trading"	**632**	**706**
Shares held for trading	20	20
Total under "securities held for trading"	**20**	**20**
Investments in associated companies	127	69
Total under investment in associates	**127**	**69**
Total investment in shares	**779**	**795**

Bank net investment in shares as of December 31, 2022 included un-realized loss of NIS 44 million (primarily due to impairment), compared to un-realized gain of NIS 139 million in 2021.

For more information about investment in shares held for trading and shares not held for trading, See Note 12 to the financial statements.

Risks overview

Overview of risks and manner of managing them

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system. Bank and Group current business activity in diverse on- and off-balance sheet products and financial instruments is exposed to various financial and non-financial risks, whose materialization has potential to impact the Bank's financial results or image. The key financial risks managed by the Bank are: Credit risk, including concentration risk, liquidity risk and market and interest risk. Along with financial risks, Bank operations are also involved with non-financial risks, such as: compliance and regulatory risk, operational risk, IT risk, information and cyber security risk, legal risk, reputational risk and other risks, such as: climate and environmental risk, business model risk and sector competition.

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

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

Corporate governance at the Bank is supportive of maintaining a risk management culture, and is based on three lines of defense: First line of defense – the business lines; Second line of defense – the Risks Control Division headed by the Bank CRO, which is the primary control function, along with control functions from other divisions; and the third line of defense – the Internal Audit Division. The Board of Directors and management constitute additional lines of defense, acting to supervise operation of the three lines of defense.

The Bank’s Board of Directors and the Board’s Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting risk strategy and setting the risk appetite for the Group in conformity with the Bank's overall strategy, as well as supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is tasked with ensuring that Bank operations are in conformity with the business strategy and targets specified by the Board of Directors and within the specified risk appetite. Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank’s Board of Directors for addressing such risks.

Principles of risk management organizational culture at the Bank are based on the overall risk management framework and on corporate governance supportive of efficient risk management, increased risk awareness, identification and handling of evolving risk and informed risk taking. These principles include reporting between different entities which provide risks management, including the Bank’s Board of Directors, Bank President & CEO, executive management and the three lines of defense. The Bank constantly acts to develop and reinforce its risks management processes, to create a risks management culture in line with Bank operations and in support of achieving the Bank's business targets. Risks management is an integral part of regular Bank operations and the Risks Control Division is involved in material processes at the Bank in all areas.

The Bank has a structured process in place for mapping and identification of risks associated with Bank operations. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

The Bank has a framework policy on risk management and control, which includes corporate governance for risk management, the Bank's overall risk appetite, mapping of material risks, principles of risk measurement and management, and the reporting required under normal conditions and in emergency. All custom policy documents are discussed and approved annually by the Board of Directors.

Risks description

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly residential mortgages, which are typically associated with relatively low risk. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of internal models for assessment of customer credit ratings. For more details see chapter "Credit risk" below.

In the business sector, the Bank operates while regularly assessing risk at customer level, at sector level and for the economy as a whole (sector concentration). Operations in this area have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operational risks, IT risks and information and cyber security risks.

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

Business-strategic risk is inherent in all Bank operations and is impacted both by internal factors (such as: corporate governance failures, credit failures and exposures, technological risk and other factors) and by external factors (such as: regulatory changes, competition risk, changes to consumer behavior, macro-economic factors and other factors).

Bank management regular monitors the achievement of work plan targets. The Risk Control Division maintains regular processes to challenge the work plans and achievement of strategic plan targets.

The Bank's business model is based on the five-year business strategy for 2021-2025 and overall risk appetite principles of the Bank. For more information see chapter "Business goals and strategy" above.

Bank management regular monitors the achievement of work plan targets. The Risk Control Division maintains regular processes to challenge the work plans and achievement of strategic plan targets. Rapid evolution of technological developments and customer behavior in recent years has been changing the landscape of the financial world in terms of increased competition. These changes impact the survivability and nature of banks in future. Such technology changes, as well as growing competition in the financial world, may impact the Bank's business model in the long term.

To this end, the Bank acts in systematic fashion, in the permanent steering committee on innovation, designed to monitor activity in the banking system, mapping of technology gaps and regular review of alternatives to be recommended for Bank operations, in line with the Bank's strategic principles. This is based on a strategic perception of the customer experience, reinforcing the trust-based relationship with customers, while providing the best service experience, with a choice of relevant products and services available.

The Bank has the business, legal and operating infrastructure to manage these exposures and to take proactive action to mitigate and/or hedge risk, in order to limit its exposure. The Bank has flexibility in management of physical assets as well as financial assets and liabilities, and in making changes to risk assets and capital, in the course of normal operations, so as to achieve the strategic targets.

In conformity with principles of the five-year strategic plan, the Bank strives to maintain and establish its leadership position in the retail sector and to increase focus on and expand operations of the business segments. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of advanced models. For more details see chapter "Credit risk" below.

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations and estimates risk under stress scenarios, as well.

Compliance and regulatory risk reflect the risk of imposition of financial sanctions and enforcement procedures, which may be applied by competent authorities, as well as of claims against the Bank and implications for reputational risk.

Conduct risk is included under compliance risk – the Bank acts in this area to maintain a fair relationship with Bank customers and other stake holders and to reduce exposure to materialization of risk and failure events in this area. Fairness is a basic value in the Bank's Code of Ethics.

The Bank has the business, legal and operating infrastructure to manage these exposures and to take proactive action to mitigate and/or hedge risk, in order to limit its exposure. The Bank has flexibility in management of physical assets as well as financial assets and liabilities, and in making changes to risk assets and capital, in the course of normal operations, so as to achieve the strategic targets.

Risks at the Bank with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles.

Risk appetite and risks management

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

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

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

Use of stress scenarios in risk management

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios allow the Bank to understand the impact of various stress events on Bank stability and provide an additional integral tool to approaches, benchmarks and models used in risk management. The outcome of stress scenarios are used by the Bank to challenge the risk appetite and capital planning, to identify significant risk concentrations and weaknesses in the portfolio, provide a tool to support business decision making and provide an additional tool for risks measurement in quantitative models for identification of risks not identified by the models. The Bank has a diverse range of methodologies for conducting stress scenarios, calculated to assess the potential impact of various risks to the Bank's business and financial targets.

System-wide scenario

In line with customary world-wide practice, the Supervisor of Banks annually conducts a uniform macro-economic stress scenario for the banking system. This process contributes to understanding the risk concentrations to which the banking system and the individual banking corporation are exposed, and is designed to test the bank's capacity to perform the scenario and to incorporate it into risk management processes.

In December 2022, the Supervisor of Banks published a uniform macro-economic stress scenario, originating from a global shock due to disruption to supply chains and the war in the Ukraine, resulting in world-wide shortage of basic raw materials and causing sharply higher inflation and economic slow-down. In response to the higher prices, central banks in Israel and around the world continue to adopt a restrictive monetary policy and sharply raise interest rates. Continued slow-down in local and global activity, along with sharply higher unemployment, impact to private consumption and lower prices of shares and bonds. These, along with curbing the inflation, cause the central banks to change direction and to sharply lower interest rates, in an attempt to revive economic activity and to prevent an even worse recession. Towards the end of the scenario, activity in Israel and world-wide recovers, inflation returns to its normal track and accordingly, the Bank of Israel starts to gradually raise interest rates.

Results of the stress scenario, showing the expected evolution of the Bank's balance sheet, profitability data and capital and leverage ratios throughout the scenario, as well as the methodology documents, are to be provided to the Bank of Israel as required, in March 2023.

ICAAP process (Internal Capital Adequacy Assessment Process)

ICAAP is an internal process for assessment of capital requirements (Pillar 2 of capital assessment under Basel directives), designed to ensure that overall capital at the Bank is in line with its risk profile, specified capital targets and business targets, in conformity with the work plan and with current capital planning. This is done both in the normal course of business and under stress scenarios. Moreover, this pillar includes qualitative assessment processes for the level of various risks, the quality of their management, and the direction of their evolution for a one-year horizon, as well as creation of the risk map and identification of risk hubs.

The ICAAP document is extensively discussed and approved by Bank management, Board committees (Risks Management Committee and Audit Committee) and by the Board of Directors plenum. The document was submitted to the Bank of Israel in late 2022 and includes qualitative and quantitative references to all risk aspects at the Bank.

The ICAAP document consists of several chapters which describe corporate governance for risks management at the Bank, concise qualitative and quantitative analysis of material risks to the Bank, the capital targets, current risk profile and from a forward-looking perspective for 2023, as well as developments during the year in conformity with the risk self assessment process and presentation of the Bank's overall risk map. Capital planning and risk assessment in the annual ICAAP document are prepared from a Group viewpoint.

The key part of the ICAAP document is the internal capital planning process, applied to a three-year forward planning horizon, from June 30, 2022 through June 30, 2025. This framework was used to calculate the required capital allocation with respect to each of the risks, from the requirements specified in Pillar 1 with additional capital required with respect to Pillar 2. Pillar 2 includes capital allocation for risks not included in Pillar 1, such as: Credit concentration risk and interest risk in the banking portfolio and additional capital allocations with respect to risks included in Pillar 1, but the Bank assumes require additional capital allocation. The capital allocation is calculated both for normal conditions and for stress scenarios. Stress scenarios are applied at variable frequency, intensity and levels, from scenarios at segment and risk level, a system-wide scenario to test concurrent materialization of multiple risks, based on the Bank of Israel Uniform Scenario, and through to application of stressed scenarios. These scenarios are intended to ensure that the Bank has sufficient capital cushions to survive even stressed scenarios, with high impact and very remote likelihood of materializing, and that the Bank is in compliance with the limit on Tier I equity ratio for the stressed scenario – minimum Tier I equity ratio of 6.5%. The Bank also applies reverse stressed scenarios test (RST) scenarios that consider, based on the Bank's risk profile, which event may bring the Bank close to the Tier I equity limit for the stressed scenario.

The annual internal assessment process at the Bank to review capital adequacy indicates that the Bank has sufficient capital to face the various risks associated with Bank operations, both in the normal course of business and under stress scenarios. Over the entire planning period, the Bank has available total capital higher than the total capital required by ICAAP, even after applying stress and stressed scenarios. Moreover, the Tier I capital ratio under the stressed scenario, for each year of the scenario period, does not drop below 6.5%.

Risks Document

The quarterly risks document is a report used as a primary tool by management and by the Board of Directors to maintain effective monitoring of Bank operations and compatibility of the risk profile with the specified risk appetite and risks management framework. This document includes the following: Clear, concise presentation of developments in the current and future risk profile vs. risk appetite, both quantitative and qualitative, with reference to major and emerging risks in the banking world, risk meters showing the distance from the specified limit, reporting of exceptions and actions taken by management's to return to the outline, results of stress scenarios and forward-looking analysis to review Bank stability, material lessons learned with regard to various risks, monitoring of Bank activities to bolster the effectiveness of risk management and control, and material issues raised in the ICAAP process, in conformity with risks identified in the risks map, and other quantitative / qualitative information with regard to anticipated developments at the Bank and/or in the banking system.

For more information see the 2022 Risks Report available on the Bank website.

Risk factor severity

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

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

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

These results are extensively discussed by Bank management and Board of Directors.

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

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

In 2022, the Bank's risk assessment and overall risk profile were slightly higher. This was primarily due to uncertainty with regard to impact of global geo-political stress, the state of the global and local economies, changes to the macro-economic environment, market volatility and uncertainty regarding the development and impact thereof on the Bank that may affect credit and financial risks.

Furthermore, in recent months there has been uncertainty in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. At this stage it is too early to assess the developments and impact of these events on Israel's economy.

The overall effect of credit risk and risk associated with quality of borrowers and collateral remained Medium.

The overall effect of credit risk and risk associated with quality of borrowers and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on economic activity in Israel and on business and economic activity at the Bank, the current risk assessment remained Medium and is slightly higher than previously due to changes to the macro-economic environment in Israel and world-wide and continuation of the Russia-Ukraine war, which increase uncertainty in the market. Interest rates continue to rise and inflation in Israel and world-wide continues to be high, primarily due to fluctuation in energy and commodity prices around the world. These changes may affect Bank operations, further increase borrowing costs and affect credit risk.

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

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

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

The assessment of the total impact of credit risks and sector concentration includes the risk assessment with respect to Bank exposure to the construction and real estate sector. The Bank is mostly focused on extending credit for construction using the financial support method (closed assistance). Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment, and for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

In 2022, the Bank continued to expand its lending operations in the construction and real estate sector, while adhering to appropriate underwriting procedures and credit spreads to reflect the risk and is regularly monitored.

The Bank assessment is that these operations have no material impact on the Bank's overall credit risk. (and this risk is not assessed as a separate risk in the risk factors table). The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank remained relatively low at 15.3% (compared to 14.7% at end of 2021 and to 14.1% at end of 2020).

Liquidity risk remained low-medium. Since early March, the alert level at the Bank was raised to Yellow, due to the continued war in the Ukraine and due to market volatility and further interest rate increases. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. In the fourth quarter and throughout 2022, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated) for the fourth quarter of 2022 was 118%. Net stable funding ratio (on consolidated basis) as of December 31, 2022 was 115%. No deviations from the risk appetite limitations were recorded.

In 2022, technology risk remained Medium. This is a material risk for the Bank, and the potential damage due to materialization of such risk may be significant under normal circumstances, and even more so during emergencies. Technological activity is focused on changing needs in line with the Bank's business strategy, and taking most of the steps to mitigate potential risk in as much as possible. In actual fact, there were no material events related to technology.

Information security and cyber risk – In 2022, this risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud customers and to conduct un-authorized transactions in customer accounts. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat.

The Bank's information security team operates fully and continuously throughout the year, constantly improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face. Note that despite the increase in cyber risk world-wide and in Israel, due inter alia to increased use of cloud environments, increased remote working and more sophisticated attacks, primarily ransom attacks – the actions taken by the Bank in recent years have maintained risk at the Bank unchanged.

In 2022, compliance and regulatory risk remained Low-Medium. On May 9, 2022, the Bank of Israel issued a circular with regard to AML and terror financing risk management (amendment of Proper Conduct of Banking Business Directive 411). Due to increase in customer activity involving virtual currency and since the Supervisor of Banks regards payment services provided by banking corporations incidental to activity involving virtual currency as carrying high risk with regard to AML and prohibition of terror financing, the amendment to the Directive stipulates the unique requirements of the banking system with regard to AML and prohibition of terror financing risk management associated with providing payment services involving activity in virtual currency.

In 2022, reputational risk remained Low, with the Bank constantly monitoring various benchmarks and indicators with regard to the Bank's reputation, including activity of competitors in the market, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of regulatory steps (such as: the mortgage track reform). To date there was no material impact on the Bank's reputational risk.

Legal risk is the risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties). The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units. In 2022, legal risk remained Low-medium.

For more information see the 2022 Risks Report available on the Bank website.

Credit risk

Risk Description

Credit risk is the risk that a borrower or counter party of the Bank would not meet their obligations to the Bank. Credit risk is a material risk for Bank operations. This risk is affected by these major factors: Business risk due to customer activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, environmental risks and climate risks, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also inter-related with some other risks, such as: market and interest risk, liquidity risk, compliance risk and other risks.

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

Description of risk appetite and management guidelines

Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.

The Bank’s Board of Directors is responsible for setting the Bank’s credit policies, which prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and mitigate its inherent risk. These principles and rules enable controlled management of the risks involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors – to the level of the entire portfolio. The Bank’s Board of Directors annually approves the Bank's credit policy and reviews the need to revise this policy throughout the year, in view of development in the business environment in which the Bank and its customers operate. The credit policies includes other policy documents which discuss the relevant risks to the Bank's credit operations, including: Credit concentration policy, which ensures that the credit concentration level at the Bank is regularly managed and monitored; policy on customer trading of derivatives and securities, collateral policy, which stipulates the principles required for management of customer collateral, safety factors required by transaction type and risk factors; and the environmental risks policy.

Risk appetite consists of a long list of benchmarks and risk factors relevant to the Bank's credit operations, including: Economic sectors, borrower groups, risk factors in the mortgage portfolio, unique activity types, quality of credit portfolio, overseas operations etc. and other risk factors relevant for the Bank's credit risk profile and its business operations. Credit risk is also monitored using a range of stress tests, which estimate the potential impact of stress events on the Bank's credit portfolio. This is done, inter alia, in order to review the stability of Bank capital to various stress events and as part of the ICAAP process.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank’s Board of Directors and management. The Bank’s credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank customers operate and the policy is revised as needed.

The three lines of defense for credit risk management:

The Bank's risks management setup consists of all management and control layers at the Bank, from the Bank’s Board of Directors, management and business units to control functions and Internal Audit. The Risks Control Division (headed by the Bank's CRO) is the overall entity tasked with risks management at the Bank, including credit risk management.

In this regard, and in conformity with Proper Conduct of Banking Business Directive 301, the Bank has specified these three lines of defense:

First line of defense – credit-related business lines at the Bank

Credit at the Bank involves several key areas, supported by an organizational structure based on divisions and units with specific specializations, with credit extended to customers in various operating segments divided among different divisions (Retail, Business) and within those divisions and among different organizational units. Lines of business management are fully responsible for risks management and for implementing an appropriate control environment for its operations. The professional units in each of these customer segments are responsible for regularly verification, monitoring and control of exposure to customers and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers, control over customers capital market exposures and other control functions. A set of procedures ensures the actual implementation of policy guidelines.

Second line of defense

Risks Control

The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risks management. Division operations and responsibilities include the following: With regard to credit risk management, the Division operates through multiple independent units:

–Credit risks control – *post-factum* assessment, independent of Bank entities which approve credit, of the borrower quality and quality of the Bank's credit portfolio.

–Analysis – a professional entity tasked with producing an independent opinion for credit to material customers, as part of the credit approval process.

– Risks Control – responsibility for credit models.

Financial Information and Reporting Division – Chief Accountant

The Chief Accountant is responsible for appropriate credit classification and for determination of provisions for credit losses.

Legal Division

Responsible for review of implications of statutory provisions and legislative changes for Bank operations and for providing current legal counsel to Bank units, as well as handling lawsuits brought against the Bank.

Third line of defense – Internal Audit

Internal Audit serves as the third line of defense within corporate governance for risks management, conducting audits of credit risk management as part of its annual and multi-annual work plan.

The Bank Group operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

In the fourth quarter of 2022, the overall effect of credit risk and risk associated with quality of borrowers and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on economic activity in Israel and on business and economic activity at the Bank, the current risk assessment remained Medium and is slightly higher than previously due to changes to the macro-economic environment in Israel and world-wide and continuation of the Russia-Ukraine war, which increase uncertainty in the market. Interest rates continue to rise and inflation in Israel and world-wide continues to be high, primarily due to fluctuation in energy and commodity prices around the world. These changes may affect Bank operations, further increase borrowing costs and affect credit risk.

Most of the Retail Division customers (both small businesses and households) are rated using advanced custom models. Actual current management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system). As part of this effort, the Bank's Training Center conducts customized activity for deployment of diverse uses of the model outcomes at branches.
For more information about key processes involved in management and control of credit risk at the Bank, see the 2022 Risks Report on the Bank website.

Handling of problematic loans and debt collection – The handling of problematic loans requires specific focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control in the Corporate Division and in the Retail Division. Identified customers are handled by business divisions or by the Special Customer Sector of the Corporate Division (first line), as the case may be and as specified in Bank procedures.

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions. A built-in, independent control process is conducted by regional management and by designated units at headquarters. The Information and Reporting Division forms a second line in the classification and provision setting process; he is responsible, in conformity with Proper Conduct of Banking Business Directive 311, for being the independent factor in charge of classification and setting the provision for credit losses.

A computer system which supports application of measurement and disclosure provisions for non-accruing debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debts under special supervision, inferior debt, non-accruing debt or debt in restructuring, as required.

Identification of residential mortgages (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.

For more information about non-accruing debts, credit risk and provision for credit losses, see Note 1.E.6. to the financial statements and the chapter "Credit risk" of the 2022 Risks Report on the Bank website.

Analysis of credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).

As of December 31, 2022, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2022 (NIS in millions):

Borrower no.	Economic sector	On-balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	914	492	1,406
2.	Civil Engineering Works	187	1,017	1,204
3.	Construction and real estate	425	569	994
4.	Financial services	4	934	938
5.	Power	546	328	874
6.	Construction and real estate	357	491	848

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. **Credit for an equity transaction would be classified according to one of the following rules:**
   - Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
   - For credit financing acquisition of equity interests in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
   - Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

"**Equity transaction**": A transaction with one of the following goals:
- Buyout – purchase or buyback, by the borrower, of the borrower's issued capital (including an employees' stock purchase plan).
- Acquisition of another corporation – the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
- Capital distribution – the payment of dividends or another transaction whose goal is to increase shareholder value.

An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. **Financing for leveraged companies**, which is material credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business customer's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank customers with material credit in major economic sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually reviewed by a forum which includes representatives from the Corporate Division, the Risks Control Division and the Accounting and Financial Reporting Division. The forum reviews changes to financial parameters of the company and the economic environment in which it operates.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Credit for equity transactions (NIS in millions):

	December 31, 2022				December 31, 2021			
Economic sector of acquired company	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Construction and real estate	353	2	355	–	762	1	763	–
Mining and excavation	523	–	523	–	–	180	180	–
Water	168	18	186	–	–	–	–	–
Financial services	260	–	260	–	–	–	–	–
Total	**1,304**	**20**	**1,324**	**–**	**762**	**181**	**943**	**–**

Credit to leveraged companies (NIS in millions):

	December 31, 2022				December 31, 2021			
Economic sector of borrower	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	222	40	262	–	–	–	–	–
Construction and real estate	394	123	517	–	26	–	26	–
Power	376	146	522	–	100	–	100	–
Commerce	142	4	146	–	92	46	138	–
Transport and storage	564	78	642	31	112	25	137	49
Public and community services	–	–	–	–	164	8	172	–
Total	**1,698**	**391**	**2,089**	**31**	**494**	**79**	**573**	**49**

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of non-accruing debts, credit risk and provision for credit loss (NIS in millions):

	Total credit risk	
	December 31, 2022	December 31, 2021
Problematic credit risk:		
Non-accruing credit risk	2,612	1,294
Accruing problematic credit risk – non-housing	1,549	1,056
Accruing problematic credit risk – housing	-	1,300
Total problematic credit risk	**4,161**	**3,650**

Major risk benchmarks related to credit quality (in percent):

	December 31, 2022	December 31, 2021
Non-accruing loans to the public as percentage of total loans to the public	0.8	0.5
Non-accruing loans to the public as percentage of total non-residential mortgages	1.1	1.3
Non-accruing loans to the public as percentage of total loans to the public	0.7	-
Ratio of problematic loans to the public to total non-residential mortgages	2.3	2.2
Ratio of residential mortgages in arrears 90 days or longer to total loans to the public	0.4	0.5
Ratio of problematic credit risk to total credit risk with respect to the public	1.1	1.0

For more information see chapter "Explanation and analysis of results and business standing" above.

Below is current data about Bank activities to assist customers, in view of the Corona Virus crisis (NIS in millions):

	As of December 31, 2022							
	Debts subject to repayment deferral			Further details of recorded debt balance of debts subject to deferred repayment				
					Non-problematic debts			
	Recorded debt balance	Number of Borrowers	Payment amounts deferred	Problematic debts	Debts not at performing credit rating	Debts at performing credit rating, in arrears 30 days or longer	Debts at performing credit rating, not in arrears	Total non-problematic debts
Total residential mortgages as of December 31, 2022	(1)3,981	4,581	477	106	93	40	3,742	3,875
Total residential mortgages as of December 31, 2021	6,120	7,430	677	272	128	102	5,618	5,848

	As of December 31, 2022			
	Further details of debts subject to repayment deferral, by repayment deferral period(2)		Debt for which the payment deferral period has expired, as of the report date	
		Non-problematic debts		
	Debts subject to deferral of 3 to 6 months	Debts subject to deferral of 6 months or longer	Recorded debt balance	Of which: In arrears 30 days or longer
Total residential mortgages as of December 31, 2022	-	3,875	27,919	669
Total residential mortgages as of December 31, 2021	82	5,766	32,775	604

(1) Partial delays in conformity with the Bank of Israel outline, of which NIS 2.4 billion resumed payment in January 2023; the rate of non-payment with respect to these balances is not material.

(2) The repayment deferral period is the cumulative deferral period granted to debt since the start of the Corona Virus crisis, excluding any deferral to which the borrower is entitled by law.

Below is a summary of non-accruing debt under restructuring made or in default (NIS in millions):

	December 31, 2022		December 31, 2021	
	Recorded debt balance	Recorded debt balance	Recorded debt balance	Recorded debt balance
	Before restructuring	After restructuring	Before restructuring	After restructuring
Restructurings made	161	152	185	185

	December 31, 2022	December 31, 2021
	Recorded debt balance	Recorded debt balance
Restructurings made which are in default	22	15

For more information see Note 30.B.2.C to the financial statements.

Analysis of change to non-accruing debts

Below is the movement in non-accruing debts and non-accruing debt under restructuring (NIS in millions):

Movement in non-accruing loans to the public	**For the year ended December 31, 2022**				**For the year ended December 31, 2021**			
	Com-mercial	**Residen-tial**	**Indivi-dual**	**Total**	**Com-mercial**	**Residen-tial**	**Indivi-dual**	**Total**
Non-accruing loans to the public – balance at start of the year	1,193	–	56	1,249	1,423	–	68	1,491
Effect of initial application of rules for identification and classification of problematic debts[1]	–	1,174	–	1,174	–	–	–	–
Loans classified as non-accruing during the period	481	482	63	1,026	460	–	26	486
Loans resuming accrual of interest revenues during the period	(68)	(319)	(46)	(433)	(315)	–	(5)	(320)
Loans subject to accounting write-off	(164)	–	(8)	(172)	(225)	–	(27)	(252)
Loans repaid	(249)	(8)	(10)	(267)	(288)	–	(24)	(312)
Other changes	–	–	–	–	138	–	18	156
Non-accruing debt balance at end of the year	**1,193**	**1,329**	**55**	**2,577**	**1,193**	**–**	**56**	**1,249**

Of which: Movement in non-accruing credit subject to re-structuring	**For the year ended December 31, 2022**				**For the year ended December 31, 2021**			
	Com-mercial	**Residen-tial**	**Indivi-dual**	**Total**	**Com-mercial**	**Residen-tial**	**Indivi-dual**	**Total**
Balance of problematic debts under restructuring at start of year	367	–	31	398	418	–	41	459
Effect of initial application of rules for identification and classification of problematic debts(1)	–	25	–	25	–	–	–	–
Re-structuring carried out during the period	94	11	24	129	135	–	18	153
Loans resuming accrual of interest revenues	(116)	–	(8)	(124)	(177)	–	(5)	(182)
Credit under restructuring written off	(14)	–	(3)	(17)	(63)	–	(15)	(78)
Credit under restructuring repaid	(65)	–	(9)	(74)	(72)	–	(19)	(91)
Other changes	(93)	–	(1)	(94)	126	–	11	137
Balance of problematic debts under restructuring at end of year	**173**	**36**	**34**	**243**	**367**	**–**	**31**	**398**

(1) Cumulative effect of initial application of US GAAP with regard to financial instruments – credit losses (ASU 2016-13) and updates there to. See also Note 1.D.1.

For more information about problematic credit risk, see Notes 13 and 30 to the financial statements.

Analysis of provision for credit losses

Analysis of movement in balance of provision for credit losses (NIS in millions):

	For the year ended December 31, 2022					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses	275	(32)	149	392	–	392
Expenses with respect to credit losses	336	99	97	532	–	532
Accounting write-offs	(330)	–	(189)	(519)	–	(519)
Collection of debts written off for accounting purposes in previous years	128	–	122	250	–	250
Net accounting write-offs	(202)	–	(67)	(269)	–	(269)
Other	25	31	79	135	–	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**

	For the year ended December 31, 2021					
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs	(241)	(10)	(143)	(394)	–	(394)
Collection of debts written off for accounting purposes in previous years	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**

For more information about provision for credit losses see Notes 13 and 30 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	December 31, 2022	December 31, 2021
Ratio of provision for credit losses to total loans to the public	1.0	0.8
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	0.6

	Year ended	
	December 31, 2022	December 31, 2021
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.2	(0.1)
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.2	(0.1)
Of which: With respect to commercial loans other than residential mortgages	0.4	(0.2)
Of which: with respect to residential mortgages	0.1	(0.1)
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

For more information about changes to components of the provision for credit losses, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

Loans bearing variable interest

The Bank, through a dedicated forum headed by the CRO and attended by representatives of the various business lines, monitors the impact of interest rate increases on credit risk management across the various segments, including in the mortgage portfolio. Insights gained from these discussions and decisions with regard to further action, including proactively contacting customers, are referred for discussion by management.

For more information about loans bearing variable interest for individuals, see "Credit risk to individuals" below.

For more information about residential mortgages bearing variable interest, see "Residential mortgages risk" below.

Credit risk to individuals (excluding residential mortgages[(1)])

The individual customer segment is highly diversified – by number of customers and by geographic location. Most customers in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of customers who face difficulties.

Credit policies and work procedures with regard to extending credit, including to individual customers, include directives and guidelines with regard to credit underwriting and adapting credit to customer needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of customer's repayment capacity and repayment sources, for all of their indebtedness. This includes review of various economic parameters of the customer based, inter alia, on the customer's regular income[(2)], pledged or unencumbered savings, knowledge of the customer and past experience working with the customer. There are also procedures, designated work processes and controls for proactive offering of consumer credit to individual customers, in conformity with Bank of Israel directives.

As for credit to individual customers, Bank policy is in conformity with the Supervisor of Banks' Proper Conduct of Banking Business Directive 311A regarding "Management of consumer credit".

The Bank regularly monitors the risk level in the credit portfolio for individuals using, inter alia, the internal credit rating model for individual customers, as well as through continuous monitoring and analysis of expenses with respect credit losses.

Below is information about credit risk to individuals – balances and various risk attributes (NIS in millions):

	December 31	
	2022	**2021**
Debts		
Current account balances	2,106	1,976
Utilized credit card balances	4,648	4,653
Auto loans – adjustable interest	2,518	2,133
Auto loans – fixed interest	2,613	2,823
Other loans and credit – variable interest	13,801	13,063
Other loans and credit – fixed interest	849	194
Total debt (on-balance sheet credit)	**26,535**	**24,842**
Un-utilized facilities, guarantees and other commitments		
Current accounts – un-utilized facilities	5,200	5,134
Credit cards – un-utilized facilities	8,960	8,331
Guarantees	312	253
Other liabilities	36	57
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**14,508**	**13,775**
Total credit risk to individuals	**41,043**	**38,617**
Of which:		
Bullet / balloon loans[(3)]	576	380
Financial asset portfolio and other collateral against credit risk[(4)]		
Financial assets portfolio:		
Deposits	4,250	3,998
Securities	275	271
Other monetary assets	206	257
Other collateral[(5)]	3,072	3,484
Total financial assets portfolio and other collateral against credit risk	**7,803**	**8,010**

(1) As defined in Proper Conduct of Banking Business Directive 451.

(2) For measuring regular income in customer accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.

(3) Loans with a grace period for principal longer than one year.

(4) Amounts presented are the financial assets portfolio and other collateral, only up to customer debt amount.

(5) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.

Below is composition by size of borrower indebtedness[(1)]:

Loan ceiling and credit risk (NIS in thousands)		As of December 31, 2022 Number of Borrowers	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	As of December 31, 2021 Number of Borrowers	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	Up to 10	262,086	340	473	813	267,042	428	1,247	1,675
Above 10	Up to 20	112,216	648	1,007	1,655	111,402	740	946	1,686
Above 20	Up to 40	149,977	1,893	2,505	4,398	147,002	2,035	2,268	4,303
Above 40	Up to 80	160,636	4,846	4,361	9,207	154,397	5,032	3,896	8,928
Above 80	Up to 150	103,027	7,506	3,611	11,117	97,395	7,339	3,234	10,573
Above 150	Up to 300	52,370	8,725	2,036	10,761	44,683	7,520	1,825	9,345
Above 300		7,176	2,577	515	3,092	4,361	1,748	359	2,107
Total		**847,488**	**26,535**	**14,508**	**41,043**	**826,282**	**24,842**	**13,775**	**38,617**

(1) Number of borrowers is for total on- and off-balance sheet credit risk.

Composition of on-balance sheet credit by fixed income[(1)] in account:

	As of December 31, 2022		As of December 31, 2021	
Income	**NIS in millions**	**in %**	**NIS in millions**	**in %**
Accounts with no fixed income for the account[(2)]	6,677	25.2	5,913	23.8
Less than NIS 10 thousand	4,372	16.5	4,459	17.9
Between NIS 10 thousand and NIS 20 thousand	8,034	30.3	7,620	30.7
Over NIS 20 thousand	7,452	28.0	6,850	27.6
Total	**26,535**	**100.0**	**24,842**	**100.0**

(1) For measuring regular income in customer accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.

(2) Primarily with respect to loans extended in conjunction with assignment of vehicle portfolios and loans extended by Igud Leasing. Due to the nature of account management, this revenue is not reflected in the current account.

Below is composition of on-balance sheet credit by remaining term to maturity[(1)]:

	As of December 31, 2022		As of December 31, 2021	
Term to maturity	**NIS in millions**	**in %**	**NIS in millions**	**in %**
Up to 1 year	4,246	21.5	3,696	20.3
Over 1 year to 3 years	6,234	31.5	5,970	32.8
Over 3 years to 5 years	4,717	23.8	4,387	24.1
Over 5 years to 7 years	2,098	10.6	2,118	11.6
Over 7 years[(2)]	2,486	12.6	2,042	11.2
Total	**19,781**	**100.0**	**18,213**	**100.0**

(1) Excluding checking account and credit cards.

(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the customer's pay check and which bear significantly lower risk than similar loans for the same term.

Problematic credit risk before provision for credit losses (NIS in millions):

	As of December 31, 2022			As of December 31, 2021		
	Credit risk[(1)]			Credit risk[(1)]		
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Balance of problematic credit risk	222	6	228	193	7	200
Problematic credit risk rate[(2)]	0.84%	0.04%	0.56%	0.78%	0.05%	0.52%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized):

	For the year ended December 31	
	2022	2021
Expense with respect to credit losses as percentage of total loans to the public to individuals	0.38%	(0.22%)

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 6.8% compared to December 31, 2021, respectively.

Composition of debts as of December 31, 2022:	
Checking accounts	7.9%
Credit cards	17.5%
Auto loans	19.3%
Other loans and credit	55.2%

- Of all debts (on-balance sheet credit) as of December 31, 2022, 29.4% is secured by financial assets and other collateral in the customer's account (compared to 32.2% as of December 31, 2021).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Bank. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In extending credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed projects, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc. Moreover, in order to minimize risk, the Bank insures the portfolio of housing bonds and performance guarantees in assisted projects with overseas reinsurers.

In view of excess demand for housing in Israel and the low interest rates in early 2022, records were set in this area, with housing prices rising by 19% over the past year and the Construction Input Price Index increasing by 5.0%. In recent months, change is apparent in the trend of apartment sales, with new residential units sold in September-November 2022, net of seasonality, was 16% lower than in the previous three months, and review of trend data reveals that since August 2021, sales have declined monthly by 4.1%. This is after observed increase by 2.3% per month from April 2020 through July 2021. The change in sales trend is in view of higher interest rates (from April to December 2022, the Bank of Israel raised its interest rate by 3.65 percentage points) and decrease in apartment buying by investors, due to the higher purchase tax. Moreover, in September-December 2022, prices of new apartments decreased on average by 1.8% on aggregate. Total housing construction starts in October 2021 through September 2022 were 70 thousand residential units, an increase by 15.6% compared to the corresponding period in the previous year. Residential housing construction completions increased by 4%, at 50 thousand residential units.

In 2022, the rental property sector also saw increased demand and higher prices, along with high occupancy rates, especially in Tel Aviv, while addressing the implications of the Corona Virus crisis accelerated processes of remote working and integration with office work (hybrid model), which are expected to remain over the long term. Recently, signs of slow-down have emerged in the high-tech market, which is a major consumer of office space, but this has yet to significantly impact the office space market, and as this slow-down gets worse, it may impact this market later in 2023. Therefore, and in view of many companies entering the eCommerce market, accelerated trend of online shopping and growth in private consumption, there is increased demand for logistics centers.

Financing of real estate transactions at the Bank is conducted in conformity with clear policy and rules stipulated in the lending policy for various activity channels, such as: financing for land, residential construction, rental real estate, purchase groups, urban renewal, TAMA 38 and so forth. Growth in activity, in view of increased competition, is achieved while adhering to appropriate underwriting procedures and credit spreads to reflect the risk. The risk level in this sector is also taken into account in the quarterly review process of the group-based provision.

The Bank regularly monitors the loan portfolio, as well as new loans extended, in conformity with benchmarks stipulated in Bank policy.

In 2022, the Bank acted to expand its loan operations in the construction and real estate sector, as part of the trend of growing demand in this sector reflected, *inter alia*, in rising prices and increased transaction volume. Consequently, the total credit exposure in the construction and real estate sectors increased by 12.0% in 2022.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2022, as presented below (Credit Risk by Economic Sector) is 15.2%. Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 12.0% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of housing bonds for which the Bank has obtained an insurance policy). The Bank reviews in each quarter the calculation of the group-based provision for credit losses in this sector, and adjusts this provision so as to account, inter alia, for growth in the loan portfolio and the underwriting conditions.

For more information about addition of loans designated for purchase of land for development or construction with LTV in excess of 80% to the list of debt with a 150% risk weighting, see Note 25 to the financial statements.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions):

	December 31, 2022							
	Credit risk to the public[(1)]							
				Credit risk	Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[(2)]	Off balance sheet[(3)]		Of which:	Non-accruing	Other problematic[(4)]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[(5)]	Facilities and other commitments					
Secured by real estate:								
Housing	19,386	6,007	10,848	36,241	28	296	83	60
Commercial and industrial	9,016	189	2,373	11,578	128	138	123	5
Total secured by real estate	**28,402**	**6,196**	**13,221**	**47,819**	**156**	**434**	**206**	**65**
Not secured by real estate	5,352	5	5,373	10,730	109	92	160	25
Total for construction and real estate economic sector in Israel	**33,754**	**6,201**	**18,594**	**58,549**	**265**	**526**	**366**	**90**
Of which: Designated for project assistance	18,797	5,072	11,107	34,976	19	347	61	63

	December 31, 2021							
	Credit risk to the public[(1)]							
				Credit risk	Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[(2)]	Off balance sheet[(3)]		Of which:	Non-accruing[(6)]	Other problematic[(4)]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[(5)]	Facilities and other commitments					
Secured by real estate:								
Housing	13,472	5,517	13,708	32,697	69	87	105	57
Commercial and industrial	7,263	83	2,150	9,496	90	49	54	7
Total secured by real estate	**20,735**	**5,600**	**15,858**	**42,193**	**159**	**136**	**159**	**64**
Not secured by real estate	5,652	219	4,193	10,064	122	99	52	33
Total for construction and real estate economic sector in Israel	**26,387**	**5,819**	**20,051**	**52,257**	**281**	**235**	**211**	**97**
Of which: Designated for project assistance	12,788	5,549	12,348	30,685	39	72	122	59

(1) On- and off-balance sheet credit risk, problematic credit risk and non-accruing loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.
(2) Loans to the public, investment in bonds by the public, other debt by the public and other assets with respect to derivatives against the public.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.
(5) Off-balance sheet credit risk due to housing bonds / similar bonds, which are mostly backed by insurance purchased from international reinsurers.
(6) Re-classified in conformity with new disclosure format for non-accruing debts, in lieu of disclosure for impaired debts.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	December 31					
			2022			2021
			Credit risk(1)			Credit risk(1)
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Secured by real estate						
Real estate yet to be completely constructed:						
Raw land	15,710	703	16,413	8,795	1,276	10,071
Real estate under construction	5,791	16,833	22,624	5,698	18,865	24,563
Real estate completely constructed	6,901	1,881	8,782	6,242	1,317	7,559
Total credit secured by real estate in Israel	**28,402**	**19,417**	**47,819**	**20,735**	**21,458**	**42,193**
Not secured by real estate	5,352	5,378	10,730	5,652	4,412	10,064
Total credit risk for construction and real estate	**33,754**	**24,795**	**58,549**	**26,387**	**25,870**	**52,257**

	December 31		
	2022	2021	Change
	Credit risk to the public		
Credit risk at performing credit rating:			
Total non-problematic credit risk	56,077	50,559	10.9%
Credit risk other than at performing credit rating:			
Problematic accruing(2)	526	192	174.0%
Non-accruing	265	324	(18.2%)
Non-problematic	1,681	1,182	42.2%
Total credit risk other than at performing credit rating	**2,472**	**1,698**	**45.6%**
Total credit risk for construction and real estate	**58,549**	**52,257**	**12.0%**

(1) Credit risk, Credit risk and non-accruing loans to the public – are stated before impact of provision for credit losses and before impact of deductible collateral with respect to borrower indebtedness.

(2) Re-classified in conformity with new disclosure format for non-accruing debts, in lieu of disclosure for impaired debts.

Credit risk[2] by economic sector

As of December 31, 2022

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating	Problematic[5]	Total	Debts	Problematic[5]	Non-accruing	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,215	1,179	13	23	1,215	945	23	13	4	3	20
Mining and excavation	982	967	-	15	834	323	15	10	1	-	6
Industry and production	15,185	14,303	283	599	14,878	9,568	599	273	31	90	306
Of which: Diamonds	1,785	1,580	65	140	1,785	1,195	140	76	19	12	36
Construction and real estate – construction[6]	50,120	48,065	1,430	625	50,035	25,918	625	159	118	36	340
Construction and real estate – real estate operations	8,429	8,012	251	166	7,910	7,248	166	106	18	-	116
Electricity and water delivery	9,101	9,051	47	3	8,828	5,223	3	2	16	19	76
Commerce	14,891	13,947	571	373	14,757	11,183	373	169	11	(46)	292
Hotels, dining and food services	1,985	1,807	86	92	1,974	1,532	92	50	-	10	95
Transport and storage	2,476	1,698	608	170	2,451	1,926	170	129	(8)	(12)	81
Information and communications	2,295	2,235	27	33	2,219	1,497	33	28	13	14	28
Financial services	18,924	18,856	45	23	14,696	9,246	23	20	15	47	45
Other business services	7,162	6,761	123	278	7,155	4,798	278	127	40	7	162
Public and community services	3,375	2,992	218	165	3,347	2,705	165	130	44	1	88
Total commercial	**136,140**	**129,873**	**3,702**	**2,565**	**130,299**	**82,112**	**2,565**	**1,216**	**303**	**169**	**1,655**
Private individuals – residential mortgages	208,125	205,976	820	1,329	208,125	196,703	1,329	1,329	99	-	902
Private individuals – other	41,047	40,459	360	228	41,043	26,535	228	56	97	67	512
Total public – activity in Israel	**385,312**	**376,308**	**4,882**	**4,122**	**379,467**	**305,350**	**4,122**	**2,601**	**499**	**236**	**3,069**
Banks in Israel	3,417	3,417	-	-	1,648	1,149	-	-	-	-	-
Government of Israel	11,065	11,065	-	-	18	18	-	-	-	-	-
Total activity in Israel	**399,794**	**390,790**	**4,882**	**4,122**	**381,133**	**306,517**	**4,122**	**2,601**	**499**	**236**	**3,069**
Borrower activity overseas											
Total public – activity overseas	7,371	6,850	482	39	7,171	5,006	39	11	33	33	35
Overseas banks	17,764	17,764	-	-	17,502	17,485	-	-	-	-	-
Overseas governments	1,757	1,757	-	-	300	300	-	-	-	-	1
Total activity overseas	**26,892**	**26,371**	**482**	**39**	**24,973**	**22,791**	**39**	**11**	**33**	**33**	**36**
Total	**426,686**	**417,161**	**5,364**	**4,161**	**406,106**	**329,308**	**4,161**	**2,612**	**532**	**269**	**3,105**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 329,308; bonds – 14,492; securities borrowed or acquired in conjunction with resale agreements – 315; (on- and off-balance sheet) credit risk with respect to derivatives – 5,773; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 76,798.
(2) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(5) On- and off-balance sheet credit risk, which is non-accruing, inferior or under special supervision.
(6) Includes on-balance sheet credit risk amounting to NIS 1,352 million and off-balance sheet credit risk amounting to NIS 1,779 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 7,310 million for which insurance has been acquired to cover the portfolio of housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

Credit risk(2) by economic sector – Continued

As of December 31, 2021

Reported amounts (NIS in millions)

	Total credit risk(1)				Off balance sheet debts(2) and credit risk (other than derivatives)(3)						
		Of which:							Credit losses(3)		
	Total	Credit performance rating(4)	Credit in good standing other than at performing credit rating	Problematic(5)	Total	Debts	Problematic(5)	Non-accruing(7)	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,203	1,179	8	16	1,203	939	16	8	(1)	1	9
Mining and excavation	750	750	–	–	651	158	–	–	(6)	–	4
Industry and production	13,280	12,517	298	465	13,116	7,689	465	300	14	37	188
Of which: Diamonds	1,552	1,390	23	139	1,552	1,031	139	68	8	4	27
Construction and real estate – construction(6)	44,695	43,288	1,004	403	44,603	19,881	403	197	43	(1)	265
Construction and real estate – real estate operations	7,562	7,271	178	113	7,360	6,228	113	84	(16)	1	43
Electricity and water delivery	7,686	7,637	36	13	7,427	4,655	13	1	11	(4)	35
Commerce	14,146	13,410	380	356	13,993	10,531	356	234	(42)	19	231
Hotels, dining and food services	2,082	1,773	142	167	2,082	1,577	167	73	(44)	8	55
Transport and storage	2,877	2,523	140	214	2,858	1,992	214	176	21	10	99
Information and communications	1,864	1,744	27	93	1,807	1,181	93	16	(2)	(2)	35
Financial services	16,457	16,387	28	42	13,165	8,143	42	7	(35)	(20)	129
Other business services	6,211	5,825	213	173	6,192	4,229	173	117	(12)	(8)	102
Public and community services	3,350	2,963	351	36	3,343	2,582	36	19	(13)	(2)	21
Total commercial	**122,163**	**117,267**	**2,805**	**2,091**	**117,800**	**69,785**	**2,091**	**1,232**	**(82)**	**39**	**1,216**
Private individuals – residential mortgages	195,368	193,185	883	1,300	195,368	175,599	1,300	–	(133)	7	803
Private individuals – other	38,707	38,201	306	200	38,617	24,842	200	56	(55)	45	254
Total public – activity in Israel	**356,238**	**348,653**	**3,994**	**3,591**	**351,785**	**270,226**	**3,591**	**1,288**	**(270)**	**91**	**2,273**
Banks in Israel	3,690	3,690	–	–	2,588	2,333	–	–	–	–	–
Government of Israel	11,827	11,827	–	–	74	74	–	–	–	–	–
Total activity in Israel	**371,755**	**364,170**	**3,994**	**3,591**	**354,447**	**272,633**	**3,591**	**1,288**	**(270)**	**91**	**2,273**
Borrower activity overseas											
Total public – activity overseas(8)	5,869	5,437	373	59	5,431	3,305	59	6	(7)	37	41
Overseas banks	9,081	9,081	–	–	7,286	7,260	–		(1)	–	1
Overseas governments	2,438	2,437	–	1	403	403	1	1	–	–	–
Total activity overseas	**17,388**	**16,955**	**373**	**60**	**13,120**	**10,968**	**60**	**7**	**(8)**	**37**	**42**
Total	**389,143**	**381,125**	**4,367**	**3,651**	**367,567**	**283,601**	**3,651**	**1,295**	**(278)**	**128**	**2,315**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts(2) – 283,601; bonds – 14,307; securities borrowed or acquired in conjunction with resale agreements – 1332; Assets with respect to derivatives – 3,652; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 86,251.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) On- and off-balance sheet credit risk, which is non-accruing, inferior or under special supervision.

(6) Includes on-balance sheet credit risk amounting to NIS 1,699 million and off-balance sheet credit risk amounting to NIS 2,096 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,699 million for which insurance has been acquired to cover the portfolio of housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

(7) Re-classified in conformity with new disclosure format for non-accruing debts, in lieu of radisclosure for impaired debts.

Key exposure to foreign countries[1]

Reported amounts (NIS in millions)

Part A – Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower (NIS in millions):

	December 31, 2022[2]			December 31, 2021[3]		
Country						Exposure
	On balance sheet[4]	Off-balance sheet[4][5][6]	Total	On balance sheet[4]	Off-balance sheet[4][5][6]	Total
USA	21,520	1,483	23,003	11,809	742	12,551
Barbados[7]	5,803	-	5,803	-	-	-
Other	6,733	8,932	15,665	7,060	7,573	14,633
Total exposure to foreign countries	**34,056**	**10,415**	**44,471**	**18,869**	**8,315**	**27,184**
Of which: To Greece, Portugal, Spain, Italy	52	4	56	49	6	55
Of which: Total exposure to LDC countries	608	86	694	548	54	602

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.

(2) On- and off-balance sheet credit risk with respect to derivative instruments is presented after credit risk mitigation, in conformity with revision of Public Reporting Directives in a circular dated July 24, 2022, following publication of Directive 203A.
(3) Reclassified.
(4) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(5) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.
(6) The balance of off-balance sheet exposure includes NIS 7,343 million, mostly with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel. (As of December 31, 2021: NIS 5,777 million).
(7) This exposure is with respect to insurance policies backing the mortgage portfolios in Israel. The insurer, incorporated in Barbados, is a subsidiary of an international insurance group incorporated in Canada.
(8) As of December 31, 2022, exposure to the UK does not exceed the reporting threshold specified in Public Reporting Directives. This exposure for these periods is presented under Others.

Part B – Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower (NIS in millions):

	December 31, 2022	December 31, 2021
	–	UK

As of December 31, 2022, there are no foreign countries for which the balance sheet exposure exceeds the threshold for this disclosure. (As of December 31, 2021, the balance sheet exposure with respect to the aforementioned country is NIS 3.2 million)

Part C – Information regarding balance sheet exposure to foreign countries facing liquidity issues

	For the year ended December 31, 2022
	Barbados[1]
Exposure at start of reported period	–
Net changes to exposure	5,803
Exposure at end of reported period	**5,803**

In conformity with Bank of Israel directives, a country which has received aid from the International Monetary Fund is deemed a country with liquidity issues. The aforementioned exposure is to an insurer that backs mortgage portfolios, and liquidity in the country is not expected to affect the repayment capacity in case of future claims by the Bank.

(1) This exposure is with respect to insurance policies backing the mortgage portfolios in Israel. The insurer, incorporated in Barbados, is a subsidiary of an international insurance group incorporated in Canada.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions(1)(2) (NIS in millions):

External credit rating	On-balance sheet credit risk(3)	Current off-balance sheet credit risk(4)	Current credit exposure
			December 31, 2022 (7)
AAA to AA- (8)	6,162	7,273	13,435
A+ to A-	875	845	1,720
BBB+ to BBB-	3	20	23
BB+ to B-	–	–	–
Lower than B-	–	–	–
Unrated	1	18	19
Total credit exposure to foreign financial institutions	**7,041**	**8,156**	**15,197**

	On-balance sheet credit risk(3)		Off-balance sheet credit risk(4)	Current credit exposure	
External credit rating	Before offset of deposits with respect to master netting agreements(5)	After offset of deposits with respect to master netting agreements(6)		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements(5)
					December 31, 2021
AAA to AA-	682	566	5,508	6,190	6,074
A+ to A-	2,305	1,653	240	2,545	1,893
BBB+ to BBB-	15	15	–	15	15
BB+ to B-	1	1	–	1	1
Lower than B-	–	–	–	–	–
Unrated	7	11	4	11	15
Total credit exposure to foreign financial institutions	**3,010**	**2,246**	**5,752**	**8,762**	**7,998**

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the Barbados, Germany, Holland, France and Switzerland.

(2) After deduction of provision for credit losses.

(3) Bank deposits, loans to the public, investment in bonds, securities borrowed or acquired in conjunction with resale agreements and other balance sheet credit risk with respect to derivatives.

(4) The balance of off-balance sheet exposure to financial institutions includes NIS 7,343 million as of December 31, 2022 (as of December 31, 2021: NIS 5,777 million) with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.

(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements.

(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

(7) Includes on- and off-balance sheet credit risk with respect to derivative instruments presented after credit risk mitigation, in conformity with revision of Public Reporting Directives in a circular dated July 24, 2022, following publication of Directive 203A.

(8) The Bank Group has exposure to foreign financial institutions, as defined in Proper Conduct of Banking Business Directive 202, in excess of 15% of the capital base:Exposure Barbados, amounting to NIS 5,803 million, rated AA-.

Due to potential implications of the economic crisis resulting from the Corona Virus pandemic for the condition of many financial institutions world-wide, credit spread volatility in the first half of 2020 increased during the crisis period. Many financial institutions had their rating outlook lowered, with some ratings lowered as well. As from the second half of 2020 and in 2021, financial markets appeared to be stabilizing, although the financial system still reflects increased risk due to further waves of the Corona Virus and higher inflation in different parts of the world. Due to the higher inflation, in recent months many central banks started to apply a restraining monetary policy and to raise interest rates. In the near term, they are expected to further raise interest rates, which may bring about re-pricing of financial assets, market volatility and changes to credit conditions. Throughout this period and in conformity with developments, the Bank closely monitors all its exposure frameworks, analyzing and reviewing the relevant risks based on various parameters, as well as in conformity with the extent of business activity with counter parties; the Bank has updated the various exposure frameworks (right sizing). The outbreak of the Russia-Ukraine war on February 24, 2022 caused disruption to the global economy and sent shock waves through capital markets, exacerbated inflation, caused shortage of energy sources in Europe and slow-down in economic activity in many countries. The Bank has assessed the risk with respect to the relevant financial institutions and adjusted the scope of activity as required. The Bank continues to monitor this risk, and assumes that the financial institutions which are the major parties of the Bank have already significantly reduced their exposure to the war risk.

As of December 31, 2022 and as of December 31, 2021, there was no net problematic credit risk (impaired, inferior or under special supervision).

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C. to the financial statements.
Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in bonds and other assets with respect to derivatives. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank’s Board of Directors sets, inter alia, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on financial date of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits. The Bank adjusts the exposure limits from time to time as required.

The Bank monitors public information and ratings, as well as any other information available with regard to financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure as required

The Bank takes into consideration the maturity dates of its credit exposures in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Residential mortgage credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of residential mortgages. However, this segment is still highly diversified and has a Low-Medium risk level, due to extensive diversification of borrowers from various economic sectors, relatively low LTV ratios, extensive geographic diversification of pledged assets and use of various risk mitigators, including property and life insurance, to mitigate credit risk in this segment.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible.

Bank policy with regard to mortgages is based on an individual approach to limit the specific risk in each loan, by reviewing various risk attributes and analysing the loan application based on risk factors with respect to borrower quality and to the nature of the transaction presented to the Bank.

When assessing borrower quality, the Bank considers, *inter alia*, the following: Loan repayment to income ratio, per capita income, income stability, seniority and so forth. Approval of loans involves a high weighting attributed to the loan repayment to income ratio, so as to review the household repayment capacity, including under a scenario of higher interest rates.

The Bank also considers risk factors with regard to the transaction and to collateral, such as the loan purpose, LTV ratio, geographic location of collateral, findings on the appraiser report and so forth.

The Bank sometimes requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures. The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on residential mortgage operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel. These restrictions, as a whole, form the Bank's risk appetite for mortgages is defined using multiple risk benchmarks, which evaluate credit risk and concentration risk aspects at regular performance level and the overall portfolio. These benchmarks include: the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity also includes portfolio analysis and monitoring by key risk factors and estimation of portfolio risk using an advanced model for rating residential mortgages, including rating of each loan and calculation of probability of default and potential loss given default, as well as conducting various stress scenarios to review the effect of changes to macro-economic factors on the portfolio risk level, primarily the impact of change in unemployment, change in housing prices and change in interest rates.

Regular monitoring of the risk profile of the mortgage portfolio and its evolution over time, in view of the specified risk appetite, shows that leading risk benchmarks remain stable and do not indicate material deterioration or change in risk level, despite the current uncertainty with regard to further developments in the macro-economic environment and its impact on the Bank. These benchmarks include: LTV ratios, repayment ratio, rate of obligation in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of December 2022) was 54.6%, compared to 53.4% on December 31, 2021 and to 52.7% on December 31, 2020 (reflecting the LTV ratio upon loan origination – see more details below).

The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite, and should the potential future risk decrease, the risk level in the residential mortgage portfolio would decrease back to Low.

Risk level in the residential mortgages portfolio increased in the fourth quarter of 2022 to Low-Medium, due to uncertainty with regard to potential future impact of higher interest rates and inflation on borrowers' repayment capacity, due to how material the mortgage portfolio is for the Bank, and even though at this time, the risk measures do not point to material deterioration or material change in the risk level.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2022	**2021**	**2020**	**2021-2022**	**2020-2021**
Mortgages issued (for housing and any purpose) out of Bank funds	41,052	38,353	27,074	7.0	41.7
From funds of the Finance Ministry:					
Directed loans	197	257	343	(23.3)	(25.0)
Standing loans and grants	89	73	125	21.3	(41.1)
Total new loans	**41,338**	**38,684**	**27,542**	**6.9**	**40.5**
Refinanced loans	5,113	7,563	4,304	(32.4)	75.7
Total loans originated	**46,451**	**46,247**	**31,846**	**0.4**	**45.2**
Number of borrowers (includes refinanced loans)	59,581	70,150	52,922	(15.1)	32.6

Below are Details of various risk attributes of the residential mortgage portfolio[(1)] as of December 31, 2022 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age[(2)] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,033	12,788	16,688	30,779	27,210	12,684	102,182
	35%-50%	804	3,345	3,070	4,410	5,176	2,967	19,772
	50%-80%	–	1	5	25	259	946	1,236
	Over 80%	–	–	1	4	15	93	113
60%-75%	Up to 35%	1,295	10,950	12,850	18,935	11,140	3,400	58,570
	35%-50%	849	3,706	2,508	2,284	1,804	857	12,008
	50%-80%	–	1	–	9	38	227	275
	Over 80%	–	–	–	–	1	21	22
Over 75%	Up to 35%	29	176	262	457	256	994	2,174
	35%-50%	7	39	47	30	46	242	411
	50%-80%	–	–	–	–	4	63	67
	Over 80%	–	–	–	–	–	10	10
Total		**5,017**	**31,006**	**35,431**	**56,933**	**45,949**	**22,504**	**196,840**
Of which:								
Loans granted with original amount over NIS 2 million		886	5,344	4,613	4,589	2,850	1,095	19,377
Percentage of total residential mortgages		17.7%	17.2%	13.0%	8.1%	6.2%	4.9%	9.8%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,489	12,808	13,677	18,463	13,595	7,989	68,021
CPI-linked[(3)]		718	2,606	2,308	565	378	2,888	9,463
In foreign currency[(3)]		132	562	661	1,244	851	803	4,253
Total		**2,339**	**15,976**	**16,646**	**20,272**	**14,824**	**11,680**	**81,737**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		29.7%	41.3%	38.6%	32.4%	29.6%	35.5%	34.6%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		14.3%	8.4%	6.5%	1.0%	0.8%	12.8%	4.8%
Loans with LTV over 75% as percentage of total residential mortgages		0.7%	0.7%	0.9%	0.9%	0.7%	5.8%	1.4%

(1) Balance of residential mortgages after provision for credit losses.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.
Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date.
This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Attributes of the Bank's residential mortgages portfolio

The Bank's policies with regard to mortgages are based on a specific approach, limiting specific risk for each loan by reviewing various risk attributes. These attributes include: review of borrower quality and their capacity to make current repayments even under scenarios involving changes to interest rates, ratio of repayment to regular household income, review of transaction data and LTV ratio. The Bank sometimes requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures.

LTV

One of the key parameters used by the Bank in minimizing risk in its residential mortgage portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2022 was 54.6%, compared to 53.4% on December 31, 2021 and to 52.7% on December 31, 2020. Out of the total loan portfolio of the Bank, amounting to NIS 196.8 billion, some 98.6% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.6 billion, or only 0.3% of the total residential mortgage portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2022, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 3.8%; for loans originated one to 5 years ago – by 4.3%; and for loans originated over 5 years ago – by 17.9%; for all loans in total – by 8.9%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total residential mortgage portfolio of the Bank to 0.9% for loans granted 1-2 years ago, 0.7% for loans granted 3-12 months ago and 0.7% for loans granted in the fourth quarter of 2022.

Repayment as percentage of regular income

The LTV ratio of a residential mortgage is a benchmark of loan risk for loans based only on collateral value, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income, net after taxes and contributions to long-term savings.

The average repayment ratio for the Bank's residential mortgage portfolio is 26.2%. 82.9% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is: 23.3%). Some 16.2% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is: 39.3%). Some 0.8% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.3%), and only 0.1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.4%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, or with high free per capita income net of mortgage repayment, or whose repayment capacity is not necessarily based on current income, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially stable guarantors. Moreover, approval of loans to such customers involves a high weighting attributed to the loan repayment to income ratio in conformity with a "normative interest rate", so as to review the household repayment capacity under a scenario of higher interest rates.

Loans bearing variable interest

The Bank offers customers residential mortgages which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment shall apply as from February 28, 2021.

The Bank provides customers with the knowledge and expertise of its staff in order for customers to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises customers to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 28 billion, or 14.2% of the residential mortgage portfolio.

Note that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank evaluates the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 19.4 billion on December 31, 2022, or only 9.8% of the Bank's residential mortgage portfolio.

Means for risk management in residential mortgages

Means for risk management in residential mortgages include:

- Underwriting process – residential mortgages are evaluated and approved based on the following criteria:
  - Loan approval criteria include: Accumulated experience at the Bank with regard to residential mortgages; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide examination center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
  - Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
  - Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
  - Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.
- Mortgage-related training – The Bank’s Training Center delivers courses for training, development and improvement of all those involved in provision of residential mortgages.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the residential mortgage portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for residential mortgages

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Examination Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center based on risk, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies actions for handling debts and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.
- Risks Control Division – The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly applying stress scenarios to the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress scenarios, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in residential mortgages

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures and in conformity with directives of the Bank of Israel, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life

insurance assigned to the Bank in case of death prior to complete repayment of the loan. This credit insurance process is a key risk mitigator.

- Loan To Value (LTV) Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, the rate of the borrower's participation is a further indication of the borrower's financial stability.

For more information about operations of these entities, see the 2021 Risks Report on the Bank website.

Sale of residential mortgage portfolios

Transactions involving sale of residential mortgage portfolios transfer the entire credit risk from the Bank to the buyer, and are backed by legal and accounting opinions that establish a True Sale. The Bank only retains the operational risk, with respect to the Bank's commitment to the buyer to operate these loans, to collect and transfer funds and to provide regular reports. In order to minimize this operational risk, the Bank has created a computer-based operational mechanism to manage these loans and to generate regular reports to the buyers. Moreover, an annual external review (ISAE3402) is conducted of the integrity and effectiveness of processes and controls for management of the loan portfolios sold.

For more information about residential mortgages risk, see also the 2022 Risks Report available on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below.

Market risk and interest risk

Risk Description

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest rate risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

Overview of market and interest risk and guidelines for its management

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes to interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital.

The Bank's Board of Directors and management have established, as part of the Bank's orderly risk mapping and identification process, that market risk is a material risk and that management of this risk is vital for stability of the Bank. Therefore, the Bank's Board of Directors has created a specific policy document for handling market and interest risk.

The policy document on handling market and interest risk incorporates Bank policy on handling such risk, on management of the risk, risk appetite, risk measurement and risk mitigators. The document stipulates the principles whereby the Bank should act in order to identify, measure, monitor, review and control the market risk and interest risk on a regular basis, both in the normal course of business and in times of stress. This document is annually approved by Bank management, by the Board's Risks Management Committee and by the Board of Directors. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Banking Conduct Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile.

Management of market risk and interest risk at the Bank consists of two main risk focus points:

- Bank portfolio – This portfolio, which is the Bank's primary activity and risk, consists of all transactions not included in the trading portfolio, including financial derivatives used to hedge the bank portfolio. This portfolio is exposed to interest and inflation risk. The measure of exposure which the Bank wishes to retain is due to the Bank's business activity. This exposure is limited by the risk appetite, specified individually for market risk and interest risk in the bank portfolio, which is reviewed by the Bank daily, using various tools and models. Any deviation from or even getting close to the specified exposure limits are regularly reported and immediately addressed, in conformity with principles specified in the policy document created by the Bank. Management of this risk is designed to maintain a risk level, in conformity with the risk appetite specified for such risk, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.
- trading portfolio – The portfolio consists of positions in financial instruments held for trade or for hedging of other components in the trading portfolio. The consolidated portfolio includes portfolios managed by the trading room and portfolios of bonds held for trade and strategy in Israeli currency and in foreign currency – as well as derivatives designated for execution of strategies. The portfolio also includes hedging transactions for instruments included in the trading portfolio. This portfolio is associated with risk that is not high.

The Bank of Israel directives relevant for market and interest risk management are: Proper Conduct of Banking Business Directive 339 "Market Risks Management"; Proper Conduct of Banking Business Directive 333 "Interest Risk Management", which expands the regulations with regard to interest risk, mostly with regard to Bank activity in the bank portfolio; and Proper Conduct of Banking Business Directive 208 "Capital Measurement and Adequacy", with regard to definition of revaluation management and capital allocation under Pillar 1 with respect to the trading portfolio.

The Bank is required to allocate capital with respect to interest risk and equities in the trading portfolio, for exchange rate risk for all banking activities and for options risk. The Bank uses the effective duration method in measuring interest risk, and the Delta Plus method in measuring options risk. This method quantifies the risk associated with operations of the options portfolio based on the discounting values. These reflect the sensitivity of the options portfolio to movements in the underlying asset and in standard deviation.

The Bank's exposure to equities is low; the Bank has a limited equity portfolio in the nostro portfolio and in the real investments portfolio. Bank operations in the trading portfolio, as noted above, are subject to restrictions which reflect low risk appetite and therefore, the Bank's capital allocation with respect to market risk is very low.

Overall market risk is categorized as Low-Medium. The market risk in the trading portfolio is minimal, in line with Bank policy. The bank portfolio includes the positions not classified as negotiable positions in the trading portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal course of business and under stress scenarios, including systemic scenarios and stressed scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Due to incomplete alignment of the average duration of uses and the average duration of sources, the Bank's economic value is exposed to changes in interest rate curves.

This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VAR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. The Bank's exposure assessment to interest risk in the fourth quarter of 2022 increased from Low-Medium to Medium, due to the higher interest rates, high uncertainty and potential impact for borrower and depositor behavior.

It is Bank policy to raise unique deposits which both answer customer needs and hedge interest rate exposures.

For more information about these models, their use and their limitations, see the 2022 Risks Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the trading portfolio and in the bank portfolio.

For more information about market and interest risk, see also the 2022 Risks Report available on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting fund transfer pricing at the Bank (FTP). Fund Transfer Prices (FTP) at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government bonds. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest risk by linkage segment and by major instrument type. The concentration map is discussed annually by the risks management committee.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, including at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests, which are regularly evaluated, through internal controls processes at the Bank, including continuous validation processes.

The Bank has two major models for managing its market and interest risks: The VAR and EVE models. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VAR calculation, commonly used around the world. The VAR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which evaluates changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve and scenarios of non-concurrent increase/decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks.

Bank methods for measuring risk values are conservative in many aspects, in line with common practice for implementation of the Basel principles. This reliably reflects the interest exposure, including effects of behavioral options inherent in the mortgage portfolio and in the deposit portfolio, which are dependent on interest. The Bank regularly reviews the risk estimation methodology, in line with global common practice.

Risk values measured in the normal course of business and under stress scenarios were higher in this quarter, due to current banking operations and to higher capitalization curves. Furthermore, the Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Below is the VAR for the Bank Group (NIS in millions):

	2022	2021
At end of period	759	592
Maximum value during period	(Jul.) 1,018	(Feb.) 810
Minimum value during period	(Apr.) 533	(Oct) 521

Market risk is primarily due to interest risk in the bank portfolio, as presented below.
Back-testing of the historical-analytic VAR model shows one case in which the daily loss exceeded the forecast VAR value. This number of cases is within the criteria specified by the Basel Committee for review of the VAR model quality.

Analysis of interest risk in bank portfolio

Below is the effect[(1)] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	December 31, 2022					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	USD	EUR	Other	Total
2% increase	(878)	(2,435)	459	20	22	(2,812)
2% decrease	895	2,519	(449)	21	(25)	2,961
	December 31, 2021					
2% increase	(905)	(1,187)	418	14	16	(1,644)
2% decrease	(82)	427	(439)	14	(17)	(97)

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.
Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different customer types.
The Bank regularly reviews the risk estimation methodology, in line with global common practice.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[(1)] of financial instruments of the Bank and its subsidiaries thereof:

	As of December 31, 2022			As of December 31, 2021		
	NIS	Foreign currency[(2)]	Total	NIS	Foreign currency[(2)]	Total
Net adjusted fair value[(1)]	20,528	1,442	21,970	18,054	362	18,416
Of which: Banking portfolio	16,432	1,534	17,966	14,355	2,250	16,605

Impact of change scenarios in interest rates on net adjusted fair value[(1)] of the Bank and its subsidiaries:

	As of December 31, 2022			As of December 31, 2021		
	NIS	Foreign currency[(2)]	Total	NIS	Foreign currency[(2)]	Total
Concurrent changes						
Concurrent 1% increase	(808)	339	(469)	57	134	191
Of which: Banking portfolio	(787)	340	(447)	95	140	235
Concurrent 1% decrease	641	(489)	152	(297)	(193)	(490)
Of which: Banking portfolio	617	(491)	126	(333)	(199)	(532)
Non-concurrent changes						
Steeper[(3)]	(1,034)	133	(901)	(240)	(32)	(272)
Shallower[(4)]	1,072	25	1,097	311	87	398
Short-term interest increase	(4)	333	329	314	163	477
Short-term interest decrease	336	(340)	(4)	85	(168)	(83)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.
(2) Includes Israeli currency linked to foreign currency.
(3) Short-term interest decrease and long-term interest increase.
(4) Short-term interest increase and long-term interest decrease.

The difference between exposure of the bank portfolio to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 1,094 million.

Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar customer.

This calculation allows for scenarios which may result in negative interest rates and does not cap interest rates at 0%.

See Note 33 to the financial statements for additional information.

Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues(1):

	As of December 31, 2022			As of December 31, 2021		
	Interest revenues	Non-interest financing revenues(3)	Total	Interest revenues	Non-interest financing revenues(3)	Total
Concurrent changes(2)						
Concurrent 1% increase	472	26	498	1,291	30	1,321
Of which: Banking portfolio	472	28	500	1,291	47	1,338
Concurrent 1% decrease	(1,100)	(272)	(1,372)	(1,158)	(36)	(1,194)
Of which: Banking portfolio	(1,100)	(274)	(1,374)	(1,157)	(59)	(1,216)

(1) For a one-year term.

(2) Changes to risk-free interest.

(3) Includes the effect of fair value, gain (loss) from transactions in bonds and the effect of interest accrual for transactions in derivatives.

Below are the key assumptions underlying the above data, which are in line with how the Bank manages interest risk:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different customer types.
- As from 2021, when calculating sensitivity of interest revenues, the risk-free interest rate is not capped at a minimum of 0%. In the same way, no cap is applied to the discount rate at 0% when calculating non-interest financing revenues.
- Given the change in the interest rate environment, behavioral assumptions were updated with respect to current account balances in credit and the securities portfolio. The assumption is that under a scenario of rising interest rates, funds would be diverted from current account balances to interest-bearing deposits, as well as changes to bonds in the nostro portfolio.

Under the concurrent scenario of interest rate increase by 1%, the capital reserve with respect to securities is expected to decrease by NIS 450 million.

For more information about interest risk, see the Detailed Risk Management Report on the Bank website.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

CPI and exchange rate

Review of inflation and exchange rate risk and principles for management thereof

Inflationary exposures – The Bank has inherent exposure to negative inflation due to Bank activity in the bank portfolio, including excess CPI-linked mortgages over CPI-linked sources. The risk management policy is in line with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame, subject to the specified risk appetite. The actual exposure is estimated as part of the risk appetite benchmarks and models applied by the Bank to all market risks. Risk is assessed as Low-Medium, reflecting the exposure and expected inflation.

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk. The Bank's overall currency risk level is low.

Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risk management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2022, the Group capital exceeded its non-monetary items by NIS 24,869 million. Free capital of the Group, which includes financial capital, was used in 2022 to finance uses in the NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2022 and 2021 are presented in Note 31 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investee companies, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2022 as presented in Note 31 to the financial statements, amounts to NIS 26.8 billion, representing the economic exposure. In December 2021, excess assets in this segment amounted to NIS 14.7 billion.

Excess uses in foreign currency for the Group as of December 31, 2022 amounted to NIS 132 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 7 million. As of December 31, 2021, the foreign currency position for the Group, after the aforementioned adjustments amounted to surplus uses of NIS 538 million. The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including bond issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis, presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2022, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	**5% increase**	**5% decrease**	**10% decrease**	**Maximum increase**	**Maximum decrease**
CPI[2]	2,842.4	1,421.2	(1,421.2)	(2,842.4)	322.1	(255.0)
USD	15.7	10.4	(5.3)	2.7	8.6	(4.7)
GBP	0.4	0.2	(0.2)	(0.4)	0.1	(0.2)
JPY	0.1	0.4	–	0.5	0.4	0.1
EUR	6.3	3.0	–	(3.2)	1.9	–
SFR	(0.4)	(0.2)	0.2	0.4	(0.6)	0.2

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 852.7 million and NIS (852.7) million, respectively.

Share price risk

For more information about share price risk, see the 2022 Risks Report available on the Bank website.

For more information about equity investments in the bank portfolio, see chapter "Major investee companies" above, the 2022 Risks Report on the Bank website and Notes 12 and 15.A to the financial statements.

Liquidity and financing risk

Risk Description

Liquidity risk – risk due to uncertainty about resource availability and the capacity to realize assets in a specified time at a reasonable price.

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risks management", Directive 342 "Liquidity risk management", Directive 221 "Liquidity coverage ratio" and Directive 222 "Net stable funding ratio". The risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank’s Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio, net stable funding ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

In 2022 there were no recorded deviations from the Board of Directors’ restrictions.

For more information about liquidity risk, see also the 2022 Risks Report available on the Bank website.

Overview of financing risk and guidelines for its management

Financing risk is managed, as part of the liquidity risk, using Board and Management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, customer type, individual depositor, number of customers, product, currency and average deposit term. A "comprehensive index" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of bonds and obligatory notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its customers, deposits with unique attributes, which allow customers to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In 2022, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2022 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This regulation is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above. The average liquidity coverage ratio for the fourth quarter of 2022 was 118%. As noted above, in 2022 there were no recorded deviations from these restrictions.

Net stable funding ratio

Proper Conduct of Banking Business Directive 222 "Net stable funding ratio" stipulates a minimum net stable funding ratio of 100% ("Regulatory NSFR") of available stable funding and required stable funding. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the net stable financing ratio for the Group would be 5% higher than the minimum required. This ratio is managed and reported in total for all currencies, on consolidated basis.

As of December 31, 2022, the ratio on consolidated basis was 115%.

For more information about liquidity risk, see also the 2022 Risks Report available on the Bank website.

For more information about the Bank's cash flows by maturity, see Note 32 to the financial statements.

As of December 31, 2022, the balance of the three largest depositor groups at the Bank Group amounted to NIS 18.9 billion.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2022, was 49% (as of December 31, 2021: 45%), of which balance sheet sources for terms longer than 1 year – 38% (as of December 31, 2021: 41%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2022 are for terms of up to 1 year, constituting 92% of total foreign currency-denominated sources (as of December 31, 2021: 96%), of which 49% are sources for terms longer than 3 months (as of December 31, 2021: 40%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by conforming the terms, as part of dynamic management of sources and uses.

For more information about raising sources and development of the balance of deposits from the public, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Operational Risk

Risk Description

Operational risk is defined as the risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank and the Group.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Operational risk includes information security and cyber risk, IT risk and legal risk.

Operational events are classified under seven risk categories, in conformity with Basel principles: Embezzlement (Bank defrauded by its employees), external fraud (Bank defrauded by customer), work practices and safety of the work environment (loss due to actions not in line with labor laws or agreements), practices regarding customers, products and business (failure to meet obligations to customer), damage to physical assets, performance, distribution and process management and business disruptions and system failures. The Bank manages and measures operational risk base on these categories as well.

Overview of operational risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions have increased legislator awareness and financial institutions' awareness of materiality of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes.

Operating risk is material as it occurs across all areas of activity and in all Bank units. Operating risk may potentially impact earnings, revenues, capital and reputation of the Bank and is correlated with other risks, such as: market risk, credit risk, liquidity risk, reputation risk and other risks. Operating events sometimes occur which are not under control of the Bank, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding), pandemic or security event. Therefore, efficient risk management is crucial for the Bank's risk management processes.

Operational risk is inherent in all products, activities, processes and systems at the Bank. With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity.

Bank management and the Board of Directors attach great importance to managing this risk, due to its materiality, as part of the Bank's overall framework for risks management and control. The Board of Directors and management have determined that management of operating risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of high standards of internal control at all levels.

The Bank has a framework policy on operational risk management that specifies the principles whereby the Bank manages operational risk, risk materiality, how it is managed, measurement and monitoring processes and actions taken by the Bank to mitigate such risk. Policy principles were specified in line with Bank strategy with regulatory requirements (Proper Banking Conduct Directives of the Bank of Israel and relevant Basel Committee directives) and in line with globally accepted best practice.

The policy elaborates the corporate governance and the roles and responsibilities of the various lines of defense and stipulates the importance of deploying an appropriate culture for management of operational risks at the Bank and Group. Risk management at the Bank is carried out in conformity with Bank of Israel directives. Directive350 "Operational risks management" and Directive310 "Risk management", which specify the overall risk management framework, and the Basel document "Principles for management of operational risk" (dated October 2014), which specify the rules for proper management of operational risk.

The Operational Risk Manager at the Bank is the Manager, Risks Control Division – who is also the Bank's CRO, responsible for proper implementation of the operational risk handling framework, acting through the Risks Control Division. The framework stipulated also includes the framework required for handling fraud and embezzlement risks, which are part of the operating risk categories according to Bank of Israel directives.

Bank policy determined the Bank's operational risk appetite in multiple qualitative and quantitative aspects, under normal business conditions and under stress scenarios. The risk appetite was specified with respect to actual losses and potential losses, at the overall portfolio level and by risk category.

The policy document was approved by Bank management and by the Board of Directors in 2022, as part of the approval process of all policy documents for risk management and control.

The Bank acts to dynamically measure and identify operational risk on two levels: Measuring loss due to failure events that actually materialized, and measuring potential risk identified by the operational risk survey process and in the risk map. Operational surveys are conducted for all Bank operations, in conformity with a three-year plan. The Bank implements a three-year plan for conducting operational risks surveys for all Bank operations, concluded at the end of 2022. This activity is an on-going process designed to generate a risk map, to increase the effectiveness of risk management and mitigation, while learning, re-assessing risk, including to due materialized events.

The Bank monitors and documents all operational failure events, including events for which a loss was incurred, as well as events with no loss or even events with a profit. Measurement of actual loss vs. the risk appetite in the normal course of business only includes loss events (without offset of profit events) and after accounting for any insurance coverage if actually realized.

The Bank conducts surveys to identify and map potential operational risks at various divisions, as a continuous process focused on mapping and assessment of material risks at each unit. The Bank has specified multiple key risk indicators (KRI) designed to identify potential risk prior to materialization. The survey results and action items (AI) are discussed, as part of self-assessment processes, by specific forums, attended by managers of the surveyed units and representatives from the Risks Control Division.

In addition to these surveys, the Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Such analysis serves the Bank in implementation of appropriate steps for parallel processes within the Bank.

The Bank has a custom system for operational risks management (PSTL – Operational Risk Portal), used by the Bank to monitor and analyze failure events, risk surveys and generating the risk map, linking any actual materialized events to the risks map, regular monitoring of recommendations for implementation arising from surveys, failure events and lessons learned. And reports with regard to operational risk.

The Bank is acting to improve the effective handling of fraud and embezzlement risk. As part of this effort, the Bank is implementing a system using business laws to flag and identify unusual activity. Handling of fraud and embezzlement is in conformity with a specific operational risks management framework policy document and the policy document on management of embezzlement risk. The framework includes a combination of Bank entities: Internal Audit, Risks Controls, information security and cyber, human resources, Security Unit and the Technology Division.

The Bank allocates capital with respect to operating risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operating risk. This segmentation and addressing the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risks Document. The quantitative and qualitative risk profile is presented in this context in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter are also presented and analyzed.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. One of the key tools is conducting operational risk surveys for all Bank operations, to create and manage the risks map on a regular basis. The surveys are conducted as risk self-assessment (RSA), where the business unit (the first line of defense) assesses the risks associated with its operations. The Risks Control Division provides guidance to the business unit with regard to the methodology for conducting the survey and for effective assessment of the existing risks, and challenges the survey outcome. The Bank has concluded the three-year plan for conducting operational risk surveys across all Bank operations in 2022. The methodology for conducting surveys consists of four stages: Assessment of inherent risk, assessment of the effectiveness of controls, assessment of residual risk, and managing the findings and risk mitigation processes.

Another key process is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. Operational risk trustees were appointed at headquarters and in branches, serving as the long arm of the Operational Risks Owner in this process. The Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk, as well as conducting seminars to provide regular guidance to operational risk trustees at headquarters and in branches.

One of the risk mitigation tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated to operational risk trustees for deployment at their units.

The Bank has established policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk through insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank also has insurance coverage under a custom cyber insurance policy, an additional layer over the banking insurance policy, which adds coverage related to computer-based crimes to the banking insurance policy. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity". The Bank is at a high state of readiness for business continuity in case of emergency. In the fourth quarter of 2022, the Bank operated in a normal state of readiness and continued to monitor morbidity, while maintaining all of its emergency formations. In the fourth quarter, the Bank continued to implement its annual work plan and exercise plan for 2022, including: Extensive exercise of the Bank of Israel Currency Department, under a scenario of a major cyber attack on Israel, which tested how the banking system addressed a nation-wide event which affected public trust in information received on the one hand, and increased demand for cash on the other hand. Moreover, during the quarter, the Bank continued to make progress on the work plan regarding business continuity, including revision of check lists, emergency program and so forth. In November, the Bank concluded two technology exercises: Exercise of the production floor of the Technology Division at the backup site, including relocation of emergency staff and exercise of operating the backup trading room at the backup site, in collaboration with the Finance Division.

As for Group-level control, in this quarter, too, the Bank continued to maintain constant contact with business continuity units of the Group and its overseas branches, including preparation for the work plan and exercise plan for 2023.

Information security and cyber defense

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank Board of Directors approved a comprehensive cyber defense strategy with reference to all required defensive components, and specified lines of defense for implementation thereof. The Bank's cyber security is led by the Chief Information Security Officer, reporting directly to the Manager, Risks Control Division – responsible, inter alia, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan. There are also several management-level forums that conduct quarterly monitoring of risk management and mitigation, as well as control over appropriateness of resources allocated to this area, in conformity with the risk assessment and changes to the technology environment at the Bank.

E-banking processes at the Bank include implementation of information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to customers and identification of exceptional transactions.

In the fourth quarter of 2022, risk remained Medium. In this quarter, a small number of fraud attempts against customers (through phishing attacks) were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud customers and to conduct un-authorized transactions in customer accounts. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat.

The Bank's information security team operates fully and continuously throughout the year, constantly improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

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

Supplier and outsourcing risk

The Bank works with a wide range of suppliers for various business needs. Using suppliers and outsourcing allows the Bank to achieve strategic targets, obtain expertise, expand the product range and improve service. Dependence on suppliers exposes the Bank to risks including the following: Operational risks, business continuity, information leakage, technology, compliance, legal, reputational and so forth. Such risk is regularly managed by risk management processes, procurement processes, business continuity and information and cyber security. The Bank has formulated and approved policy on supplier and outsourcing risk management, in conformity with Proper Conduct of Banking Business Directive 359A "Outsourcing".

IT risk

IT risk is risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.

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

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management".

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

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also has a NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects. In 2022, the Bank continued to reinforce its capacity to identify malfunctions in early stages, and expanded the use of bots to improve the effectiveness of system availability monitoring.

In 2019, the Bank started a project to replace its CRM system gradually, over several years. In March and August 2022, several milestones went live, along with further development of upcoming milestones.

In January 2023, the new payment / receipt server system went live, which is designed to provide a solution in this area for all Bank applications.

As part of bolstering its technology infrastructure, the Bank invests in technology systems, in order to address the evolving challenges in the business environment. The rapid pace of change in technology, changes to how services are made accessible to customers and expansion of the range of channels used by the Bank and its customers, require constant investment in technology. Investments are also made to upgrade the business capabilities and for compliance with new regulatory requirements, such as preparing for Open Banking. The Bank is also developing advanced tools for handling data and extracting information from data, in order to improve its measuring capacity and decision making, both from business marketing aspects and from risk management aspects.

Legal risk

Legal risk is defined in Proper Conduct of Banking Business Directive 350 regarding "Operational risks" and includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties).
Legal risk includes risks arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risks arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risks Manager. The Bank constantly strives to minimize as much as possible the legal risks associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.
The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units.
In 2022, legal risk remained Low-medium.

For more information about operational risk, see also the 2022 Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk Description

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division (CRO). The Compliance Officer is responsible for continuous management of this risk.
The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for managing and reducing compliance risk across the Bank.
The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank's Board of Directors. The Compliance Officer acts to deploy a compliance culture at the Bank, at subsidiaries including Bank Yahav and Bank affiliates overseas, by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new customers, or to material changes to any of the above. The Bank conducts compliance surveys in various compliance areas, so as to ensure the effectiveness of compliance risk management activities. The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its customers and with other stake holders, places the customer at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics and the Bank takes action to deploy and implement the value of Fairness among employees.
The Bank has internal enforcement programs for securities and for anti-trust law.
The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank.
Compliance risk remained unchanged in 2022, at Low-Medium.
This risk assessment is due, inter alia, to addressing of risks classified as high and to further enhancement of controls, training delivery, findings of surveys and audit reports and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators. The Bank also applied regular controls, in order to monitor compliance risk that may materialize during this period.
For more information about compliance and regulation risk, see also the 2022 Risks Report available on the Bank website.

Cross-border risk

Risk Description

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank customers in contravention of any statutory provisions.

Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank customers, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies to the Bank's overseas affiliates, in activity with foreign-resident customers.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Law – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

Overview of cross-border risk and guidelines for management thereof

The Bank has near-zero appetite for cross-border risk.

Cross-border risk remained unchanged in 2022 and is defined as low-medium. The Bank manages this risk by revising procedures, automating work processes, specifying cross-border risk level for account, applying second line of defense controls, delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS.

The Bank also monitors regulatory updates from relevant countries for the Bank and its affiliates, and implements them if applicable.

For more information about cross-border risk, see also the 2022 Risks Report available on the Bank website.

The Bank applies the statutory provisions for implementation of FATCA and CRS, and provides timely reports to the Israeli Tax Authority/ The Bank is compliant with terms and conditions of the QI agreement with the IRS. International entities, including OFAC (of the US Department of Treasury) and the European Union have imposed international sanctions on countries, organizations and individuals. As part of management of its international financial operations and maintaining proper business relations with correspondent banks, the Bank is compliant with these sanctions, even though they do not apply directly to the Bank. As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country / entity subject to international sanctions.

AML risk

Risk Description

AML risk is the risk of financial loss (including due to legal proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML.

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international AML effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and customers that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

The Bank has zero risk appetite with regard to AML risk.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected *inter alia* by enhanced controls and appropriate custom training.
The Bank has near-zero risk appetite with regard to AML risk.

AML risk remained unchanged in 2022 and is defined as low-medium. The risk assessment is due, *inter alia*, to further intensive training and deployment activity along with risk-focused controls, improvement of documents and classifications, and taking effective action to avoid recurrence of unusual events and compliance failures, in view of increased business activity and further increased regulatory activity reflected, *inter alia*, in frequent issue of new directives, for which the Bank prepares accordingly.

For more information about AML, see also the 2022 Risks Report available on the Bank website.

Terror financing risk

Risk Description

Terror financing risk is the risk of financial loss (including due to legal proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to terror financing.

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international anti-terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and customers that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

The Bank has zero risk appetite with regard to terror financing risk.

Terror financing risk remained unchanged in 2022 at Low. The risk assessment is based, *inter alia*, on risk assessment conducted by the Bank, on continued risk-focused management, as reflected by revision of operating procedures and processes, including IT support and process streamlining, training and deployment activities along with risk-focused controls in the first and second lines of defense, and taking effective action to prevent recurrence of unusual events and compliance failures and strict control over banking activity.

For more information about terror financing risk, see also the 2022 Risks Report available on the Bank website.

Reputational risk

Risk Description

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event, cyber security event or any other event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by customers to withdraw deposits.

Overview of reputational risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.

The Reputation Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.

Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect. In the past year, reputational risk remained Low. The Bank continued to monitor the activity of competitors in the market, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of regulatory steps (such as: the mortgage track reform). The Bank continues to regularly monitor the impact of the Union Bank merger. As part of its regular activity, the Bank monitors the discourse on social media and assesses its impact. To date there was no material impact on the Bank's reputational risk.

Business-strategic risk

Risk Description

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

Review of business-strategic risk and principles for management thereof

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

The Business-Strategic Risk Owner is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy: Monitoring of developments of external factors which may affect the Bank's strategic risk, including regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. In addition, the Financial Information and Reporting Division and the Risks Control Division regularly and independently monitor business-strategic risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's business-strategic risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve.

Developments in the business environment which may impact strategic risk

The Bank's business activity exposes the Bank to various financial and non-financial risks, with potential to impact the Bank's financial results or image. Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes in the competitive landscape, in the consumer environment, in the regulatory environment and in technology, non-financial risks have been evolving. For more information see chapter "Risk events" above.

For more information about strategic-business risk, see also the 2022 Risks Report available on the Bank website.

Environmental risk and climate risk

Risk Description

Environmental risk – This is risk due to potential impact of environmental changes on financial institutions. The Bank is exposed to potential loss due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other, derived risks: reputation risk, third-party liability risk and so forth.

Climate risk is risk due to increased frequency and intensity of weather events due to global warming. The Bank faces risk of financial loss or impact to its reputation, due to materialization of physical events or processes or adjustment to transition risk due to climate change.

Climate risk includes transition risk, regarded as long-term risk. Such risk is due to the accommodation process to a low-carbon economy (such as transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risk that may materialize due to direct impact of extreme events, such as fire, flooding and so forth, and due to prolonged, chronic change that may result from higher sea levels and higher temperatures that may affect the ecological system, desertification processes and so forth.

Risk overview and risk management guidelines

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental aspects has grown. In conformity with a letter issued by the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, within periodic assessment of quality of credit extended.

In December 2022, the Supervisor of Banks issued an update to Public Reporting Directives with regard to public disclosure of environmental, social and governance (ESG) aspects, which indicates the high importance the Supervisor sees in promoting environmental risk management and opportunities, including climate risk. The Bank is preparing to implement the directive, both as disclosure in the ESG Report and in forming a continued, long-term process based on TCFD principles, including all financial activities at the Bank, as well as formulation of stress scenarios.

As for loans, the Bank has reviewed, with assistance from external advisors, the implications of environmental risks as an integral part of credit risks (from financial, legal and insurance aspects). Consequently, the Bank has set policy on environmental risk management in extending credit, which is the most relevant, significant risk impacted by entities with a potential to create pollution and environmental hazards.

As part of this policy, the Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.

This policy, as part of the Bank's risk management and control process, takes into account not only considerations based on customer quality, repayment capacity, financial stability, liquidity, reliability, long standing with the Bank, account standing, collateral quality and so forth, but also environmental considerations, if they are material, that include the potential for environmental impact due to borrower activity and the potential for environmental impact on their regular activity. The policy on environmental risk in lending is approved annually by the Board of Directors, as part of the Bank's policy documents, as part of the Board's role in setting risk policy for the Bank, including environmental risks, in conformity with Bank strategy.

Identification and mapping of environmental risks to which the Bank is exposed

Managing exposure to environmental risks includes these major components:

- Identification and mapping – the Bank has mapped sectors with material potential for environmental risk, including climate risk, including various sectors in energy, industry, transportation, desalinization, mining and quarrying. The list of economic sectors used to classify Bank customers has been reviewed with help from external advisors. This review included sorting of all economic sectors by the extent of their impact on environmental and climate aspects as follows: waste water, hazardous materials, noise, radiation, waste, soil, air, smell, asbestos, CO_2 emissions. This mapping is periodically reviewed and adjusted based on local and international guidelines, regulations and standards issued and based on experience gained in this area.
- Estimating the impact of environmental risks – risk that meets the specified threshold criteria, is carried out, inter alia, through the following: Property valuation (based on criteria for identification of land and properties which require reference to environmental aspects), material information included on financial statements, information obtained from customers, reports to the Ministry of Environmental Protection. For large-scale financing (as percentage of Bank capital) of real estate projects and land, an environmental review is conducted when there are positive indications of environmental risk, according to the list of criteria specified by the Bank. For very large-scale infrastructure ventures (construction and new construction) where financing is arranged by the Bank, environmental assessment with emphasis on environmental hazards and compliance with applicable regulation. In this regard: Requirement for the technical / environmental advisor to refer to environmental impact of the venture and means to minimize risk, compliance with environmental regulatory requirements, objective and future uses of the venture, as well as operational measures to minimize environmental risk and climate risk. As required, the Bank is assisted by external advisors for reference and cost estimation.
- Loans to economic sectors with material environmental impact – as part of material loan applications by companies in economic sectors identified as having material environmental impact, reference is made to environmental risks which may affect loan repayment capacity, such as compliance with regulatory provisions, material environmental costs and legal proceedings involving the company, which are weighted as part of the overall customer risk assessment.
- Use of environmental databases – as part of incorporating environmental risks into the Bank's work, an extensive list has been created of various databases related to environmental protection, to assist business entities as required.

Corporate governance and risk management at the Bank

Management of environmental risks and climate risks is specifically discussed by the Board of Directors' Risk Management Committee, which advises the Bank Board of Directors on risk management – in similar fashion to most of the material risks. The status of ESG risk management is reported semi-annually to the Board of Directors' Risk Management Committee and annually to the Board of Directors. In 2022, the status of addressing ESG aspects was presented and the Bank's policy document on management and control of ESG risk was discussed and approved.

Moreover, management of environmental risk and climate risk is implemented through the ESG Steering Committee, headed by the Manager, Human Capital, Resources and Operations Division and attended by managers of the different divisions. The role of the Committee is to lead policy, activity, control and reporting in conjunction with promoting ESG across all Bank operations. The Committee convenes once per quarter and reports to Bank management on progress made and on improvement in ESG performance.

Furthermore, an administration was created to assist in the preparation process for reporting on climate and environmental risk in conformity with international practices (TCFD). This administration consists of three teams: the passive account and opportunity identification team, the credit team and the risk control team. The administration includes representatives from various Bank divisions, review the implementation of climate and environmental aspects in business activity with Bank customers, and their impact on credit risk and on opportunities in this field. As part of risk management, the Bank strives to realize business opportunities in environmental and climate areas, and is acting to develop environmental products. Thus, the Bank extends environmental loans and strives to expand it including, inter alia, loans for development of green energy, public transportation, waste processing and recycling, electric vehicles and so forth.

Moreover, the administration also reviews the implementation of Supervisor of Banks' directive and incorporation of common methodologies for mapping, monitoring and reporting on these aspects.

For more information about Bank activity, see the ESG Report on the Bank website:
-Hyperlink Removed- >> about the bank >> investor relations

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed for an appropriate provision to cover expected credit losses with regard to bonds held to maturity and the portfolio of bonds available for sale and certain off-balance sheet credit exposures. The estimated provision for expected credit losses is calculated over the contractual term of the financial asset, taking into account estimated early repayment.

In developing the estimated expected credit losses, the Bank accounted for the effects of past events, current terms and conditions and reasonable forecasts which can be founded about collectability of the financial assets. In general, calculation of the provision for expected credit losses is estimated on group basis when assets have similar risk attributes. These attributes include the following: (1) Credit score or rating, either internal or external; (2) risk rating or risk classification; (3) type of financial asset; (4) type of collateral; (5) size; (6) borrower's operating sector.

For each group of financial assets with similar risk attributes, the Bank calculates the provision for expected credit losses using one of the methods for measurement of such provision as allowed by the standard, which the Bank expects should result in the best estimate of provisions for credit losses. In order to estimate expected credit losses over the contractual terms of the assets, the Bank relies on historical information, reviewing the need to adjust such historical information to reflect the extent to which current conditions and reasonable forecasts which can be founded differ from those in the period when the historical information was assessed.

When the reasonable period that may be founded, as determined by the Bank, is shorter than the duration of the financial asset, the Bank resumes use of historical information not adjusted for current economic conditions nor for expectations of future economic conditions, such as: change in unemployment rate, asset values, commodity values, arrears and so forth. The return to information about historical losses may be in one of the following methods: (1) Immediate return; (2) return on straight line basis; (3) use of another logical and methodical basis.

Provision for credit losses – consumer loans (non-residential mortgages)

For the consumer loan portfolio, which includes loans to individuals, other than residential mortgages, the Bank measures the provision for expected credit losses using a model which calculates the probability of default (PD) and the loss given default (LGD) ("the PD/LGD Method"), by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the consumer loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – residential mortgages

For the residential mortgage portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, term to maturity, loan age and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the residential mortgages portfolio and because the Bank does not generate forecasts for periods longer than one year, return to historical default rates is gradual over half of the average duration in the residential mortgage portfolio – 4 years.

Provision for credit losses – retail business loans

For the retail business loan portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the retail business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – business loans

For the business loan portfolio, the Bank measures the provision for expected credit losses by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth. The provision is determined by a method which calculates the average historical loss rates for each segment (WARM method).

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – large-scale loans with unique risk attributes

For loans extended for project financing and loans extended for financing of means of control (where loans are in excess of 0.5% of Bank equity), the Bank measures the provision for expected credit losses based on the PD/LGD method, with the calculation based on rating information from global rating agencies (Moody's / S&P).

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. Similar to the business credit segment, return to historical default rates is immediate after one year.

Provision for credit losses – loans to governments and banks

For loans to governments and banks, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal and external rating, type of financial asset and so forth.

The Bank has also set criteria and factors to be taken into account in order to determine that for some exposures to governments, the expected credit losses are near zero.

Provision for credit losses – off-balance sheet exposures

Off-balance sheet exposures include credit exposures with respect to commitment to extend credit, letters of credit, financial guarantees not treated as insurance and other similar instruments.

The provision for credit losses with respect to off-balance sheet exposures is assessed in conformity with rules set forth in Topic 326 of the codification, based on the provision rates determined for on-balance sheet credit (as described above), taking into account the expected credit realization rate upon default of the off-balance sheet exposure risk, in conformity with Basel coefficients.

The Bank does not calculate an estimated provision for expected credit losses with respect to off-balance sheet commitment to extend credit which may be un-conditionally terminated by the Bank.

Provision for credit losses – securities in portfolio held to maturity

For securities in the portfolio held to maturity, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as issuer type, duration, interest rate, payment frequency and so forth.

The Bank does not measure expected credit losses with respect to certain government bonds, because the information about historical credit losses, adjusted for current conditions and for reasonable forecasts that may be founded, results in expectation that non-payment of the amortized cost basis is zero.

Provision for credit losses – bonds available for sale

The Bank estimates the expected credit losses with respect to bonds available for sale upon each reporting date, when the fair value is lower than the amortized cost.

Whenever the fair value is lower than the amortized cost, the Bank reviews whether the impairment of fair value is due to credit losses or to other factors. Impairment resulting from credit losses is recognized by way of a provision for credit losses, and impairment not recognized by way of a provision for credit losses is recognized under Other Comprehensive Income, net of tax.

In conformity with provisions of Topic 326 of the codification, the Bank calculates the provision for expected credit losses for securities available for sale individually, using the discounted cash flow method, used by the Bank to compare the present value of expected future cash flows, determined based on past events, current conditions and reasonable forecasts that can be founded (such as: sector, geographic, economic and political factors relevant for collectability of the bond), to the amortized cost basis of the securities. Such provision is recognized against an expense with respect to credit loss, to reflect the credit loss component of impairment of the fair value to below the amortized cost. The provision for credit losses with respect to bonds available for sale is capped and may not exceed the difference between the amortized cost and the (lower) fair value, known as "fair value floor".

If the fair value of the securities increases over time, any provision for credit losses which has not been written off is reversed by reducing the expense with respect to credit losses.

Provision for credit losses – net lease investments

For the balance of net lease investments recognized by a lessor in conformity with Topic 842 of the codification regarding leases. The impact of application of this standard is insignificant.

Provision for credit losses – loans evaluated on individual basis

For commercial loans with contractual balance over NIS 1 million, classified as non-accruing, for which specific issues have been identified unlike attributes of other debts, the Bank applies the discounted cash flow method, calculated for each and every debt to determine the provision for credit losses on individual basis.

Reviews of overall appropriateness of the provision

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on Management discretion, taking into account the inherent risk in the loan portfolio and weaknesses and restrictions of assessment methods applied by the Bank to determine the provision.

See Note 1.E.7 to the financial statements for additional information.

Derivative instruments

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivative instruments using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivative instruments based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or trading bonds of the counter-party) – shall be classified as a Level 3 fair value measurement.

See Notes 1 and 16 to the financial statements for further information. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employees' rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government bonds in Israel plus the average yield spread for corporate bonds rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government bonds, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employees' rights.

Group liabilities for employees' rights calculated based on an actuarial model amount to NIS 2,565 million (including provision for employees' retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employees' rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase	1% change in annual payroll increase		1% change in departure rate before retirement age	
	in discount rate	Increase	Decrease	Increase	Decrease
Severance pay provision	(159)	144	(120)	144	(143)
Budgetary pension	(47)	–	–	–	–
Other	(97)	10	(9)	(12)	9

See Notes 1 and 12 to the financial statements for further information.

Provisions with respect to contingent liabilities and lawsuits

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 26C provides disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Law, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal control

In the quarter ended December 31, 2022, there was no change to internal control over financial reporting at the Bank, which materially affected, or which may be reasonably expected to affect internal control over financial reporting at the Bank.

In conformity with the Supervisor of Banks' directives regarding adoptions of Section 404 of the Sarbanes-Oxley Law, this report includes certification with respect to responsibility of the Board of Directors and management for setting and maintaining appropriate internal control over financial reporting and assessment by management of the effectiveness of internal control over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's Independent Auditor is also included, with regard to appropriateness of internal control over financial reporting at the Bank in conformity with relevant standards of the Public Company Accounting Oversight Board (PCAOB).

M. Vidman	Lari Moshe
Moshe Vidman	**Moshe Lari**
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan, March 13, 2023

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2022 (hereinafter: "the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Moshe Lari
President & CEO

Ramat Gan, March 13, 2023

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2022 (hereinafter: "the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv
Vice-President
Chief Accountant

Ramat Gan, March 13, 2023

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2022 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management assumes that as of December 31, 2022, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2022 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co., as noted in their report on page 113, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2022.

Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:
Ramat Gan, March 13, 2023

Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2022, based on criteria stipulated by the integrated framework for internal controls published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 4.18% and 5.64%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2022 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We are of the opinion that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2022 based on criteria stipulated in the integrated framework for internal controls published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2022 and 2021 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows for each of the three years ended December 31, 2022, and our report dated March 13, 2023 includes an unqualified opinion on the aforementioned financial statements.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 13, 2023

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Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2022 and 2021, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2022. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 4.18% and 4.38% of total consolidated assets as of December 31, 2022 and 2021, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 5.64%, 5.79% and 8.06%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2022, 2021 and 2020, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was prescribed by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We are of the opinion that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above consolidated financial statements present fairly, in all material respects, the financial position – of the Bank – as of December 31, 2022 and 2021, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years in the period ended December 31, 2022, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2022, based on criteria specified in the integrated framework for internal controls published by COSO, and our report dated March 13, 2023 included an unqualified opinion on the effectiveness of internal controls over financial reporting at the Bank.

Key audit matters

The key audit matters listed below have been, or needed to be, communicated to the Bank's Board of Directors and, in our professional opinion, were most significant in audit of the consolidated financial statements for the current period. These matters include, *inter alia*, any matter which: (1) Refers or may refer to material items or disclosures on the financial statements; and (2) Our discretion with regard there to was especially challenging, subjective or complex. These matters were resolved in our audit and in forming our opinion of the consolidated financial statements as a whole. Communicating these matters below does not alter our opinion of the consolidated financial statements as a whole, and we do not use these to provide a separate opinion of these matters, nor of the items or disclosures to which they refer.

Provision for credit losses – classification and provision with respect to debts assessed on individual basis

As set forth in Notes 13 and 30 to the consolidated financial statements, the provision for credit losses with respect to debts assessed on individual basis amounted, as of December 31, 2022, to NIS 1,118 million.

The process of assessment of the loss inherent in the loan portfolio, with respect to substantial debts assessed on individual basis, is based on significant estimates associated with uncertainty, and on subjective assessments – both in identification and classification of debts as problematic debts or debts in good standing, and in measuring individual provisions. Changes in these estimates or assessments may have material impact on the individual provision for credit losses presented on the Bank's financial statements.

Given (1) the extensive discretion required of Bank management to identify the aforementioned problematic debts, based on specific criteria which may indicate that debt has become problematic, the estimated potential or current impact to the borrower's primary debt repayment source, the borrower's estimated cash flow for full repayment of the debt when due, and assessment of other financial data for the borrower which may provide indications for existence of current or potential weaknesses of the borrower, (2) discretion exercised by Bank management in calculating the individual provision for future cash flows expected to be used for debt service out of borrower operations, and realization of collateral and guarantees, and (3) audit of the provision for credit losses, which require significant discretion by the Independent Auditor as well as knowledge and experience, in order to review the reasonability of assumptions and data used by management in estimating the provision, we have identified the classification of debts reviewed on individual basis and the estimates used as basis for calculation of the individual provision for credit losses as a key audit matter. The response to the aforementioned key audit matter included application of procedures and assessment of audit evidence with respect to forming our opinion of the financial statements as a whole.

We have applied audit procedures with respect to this key matter, including review of the effectiveness of relevant controls for review of debt classification and for the individual provision for credit losses with respect to impaired debt. Furthermore, these procedures included, inter alia, review of the process conducted by Bank management with regard to debt classification and estimating the individual provision for credit losses, including (1) review of appropriateness of classification of debts in good standing for a sample of debts, and (2) review of assumptions for cash flows used to determine the provision for credit losses for a sample of debts classified as non-accruing debt, based on review of the reported outcome for the borrower, value of their collateral and understanding the status of debt collection proceedings or debt re-structuring by the Bank.

Provision for credit losses – Provision for expected credit losses assessed on group basis

As set forth in Note 1, the Bank applies as from January 1, 2022 US GAAP with regard to expected credit losses, published in standards update ASU 2016-13.

As set forth in Notes 13 and 30 to the consolidated financial statements, the provision for credit losses with respect to debts assessed on group basis amounted, as of December 31, 2022, to NIS 1,766 million.

The group-based provision for credit losses reflects the assessment by Bank management of expected credit losses over the remaining term of the loan portfolio, with significant use of forward-looking information that reflects forecasts regarding future economic events. Calculation of the provision for expected credit losses on group basis includes breakdown of credit by groups of financial assets having similar risk attributes. For each group of financial assets, the Bank calculated the provision for expected credit losses, based on historical information, adapted for current conditions, for early repayment forecasts, collection capacity of the financial assets and forecasts regarding future economic events, so as to reflect the extent to which current conditions and future forecasts would differ from past conditions. Change in these estimates and assessments may materially impact the provision for credit losses estimated on group basis, as presented on the Bank's financial statements.

In view of (1) the significant judgment and assessments by Bank management in development of models for assessment of expected credit losses based on forecasts regarding future economic events over the remaining term of such credit, early repayment forecasts and collection capacity of the financial assets; and (2) audit of the provision for credit losses, which requires significant judgment to be exercised by the Independent Auditor, as well as know-how and experience, in order to review the reasonability of the assessments and estimates used by management in determining the estimated provision, we have identified the provision for credit losses on group basis as a key matter in this audit. The response to the aforementioned key audit matter included application of procedures and assessment of audit evidence with respect to forming our opinion of the financial statements as a whole.

We have applied audit procedures with respect to this key matter, including review of the effectiveness of relevant controls for the process of calculating the provision for credit losses with respect to debts assessed on group basis, including controls with regard to validation and confirmation of relevant models and forecasting with regard to future economic events. Moreover, these procedures included, *inter alia*, review of the process conducted by Bank management in assessing the provision for credit losses on group basis, which included: (1) Assessment of appropriateness of the models, assumptions included in these models and the methodology used to calculate the forecast regarding forward-looking events and the provision with respect to debts assessed on group basis in general; (2) Review whereby the model calculations used in calculating the provision with respect to debts assessed on group basis are appropriate; (3) Review of integrity and accuracy of data used to calculate the estimated provision with respect to debts assessed on group basis; The procedures we have carried out also involved experts, having expertise and know-how, who helped us assess the appropriateness of the models used in forecasting, methodologies and macro-economic variables.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 13, 2023

We have been serving as the Bank's Independent Auditor since 1995.

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Bank Mizrahi Tefahot

Financial Statements

2022

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Consolidated statement of profit and loss

For the year ended December 31

Reported amounts (NIS in millions)

	Note	2022	2021	2020
Interest revenues	2	16,195	10,557	7,528
Interest expenses	2	5,955	2,872	1,708
Interest revenues, net	2	10,240	7,685	5,820
Expenses with respect to credit losses	13.30	532	(278)	1,050
Interest revenues, net after expenses with respect to credit losses		**9,708**	**7,963**	**4,770**
Non-interest revenues				
Non-interest financing revenues	3	754	401	221
Commissions	4	2,052	1,947	1,671
Other revenues	5	622	287	221
Total non-interest revenues		**3,428**	**2,635**	**2,113**
Operating and other expenses				
Payroll and associated expenses	6	4,029	3,536	2,644
Maintenance and depreciation of buildings and equipment	16	1,012	1,002	871
Other expenses	7	1,132	1,030	764
Total operating and other expenses		**6,173**	**5,568**	**4,279**
Pre-tax profit		6,963	5,030	2,604
Provision for taxes on profit	8	2,356	1,730	903
After-tax profit		**4,607**	**3,300**	**1,701**
Share of profits of associated companies, after tax effect	15	5	(10)	1
Net profit:				
Before attribution to non-controlling interests		4,612	3,290	1,702
Attributable to non-controlling interests		(140)	(102)	(92)
Attributable to shareholders of the Bank		**4,472**	**3,188**	**1,610**
Earnings per share(1) (in NIS)	9			
Basic earnings				
Net profit attributable to shareholders of the Bank		**17.47**	**12.47**	**6.70**
Diluted earnings				
Net profit attributable to shareholders of the Bank		**17.38**	**12.35**	**6.69**

(1) Share of NIS 0.1 par value.

The accompanying notes are an integral part of the financial statements.

Moshe Vidman
Chairman of the Board of Directors

Moshe Lari
President & CEO

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, March 13, 2023

Consolidated statement of comprehensive income

For the year ended December 31

Reported amounts (NIS in millions)

	Note	2022	2021	2020
Net profit:				
Before attribution to non-controlling interests		4,612	3,290	1,702
Attributable to non-controlling interests		(140)	(102)	(92)
Net profit attributable to shareholders of the Bank		**4,472**	**3,188**	**1,610**
Other comprehensive income (loss) before taxes	10			
Adjustments for presentation of available-for-sale securities at fair value, net		(809)	25	69
Adjustments from translation of financial statements of investments in associated companies(1)		–	(1)	–
Net gains (losses) with respect to cash flows hedging		18	(33)	3
Adjustments of liabilities with respect to employees' benefits(2)		517	(18)	14
Total other comprehensive income (loss), before tax		**(274)**	**(27)**	**86**
Related tax effect		70	7	(29)
Other comprehensive income (loss) after taxes(3)				
Other comprehensive income (loss), before attribution to non-controlling interests		(204)	(20)	57
Less other comprehensive income (loss) attributed to non-controlling interests		7	7	1
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(211)**	**(27)**	**56**
Comprehensive income:				
Before attribution to non-controlling interests		4,408	3,270	1,759
Attributable to non-controlling interests		(147)	(109)	(93)
Comprehensive income attributable to shareholders of the Bank		**4,261**	**3,161**	**1,666**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.

(3) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

The accompanying notes are an integral part of the financial statements.

Consolidated balance sheet

As of December 31

Reported amounts (NIS in millions)

	Note	2022	2021
Assets			
Cash and deposits with banks	11	93,673	95,267
Securities[(1)(2)]	12	15,144	15,033
Securities borrowed or purchased in resale agreements	27	315	1,332
Loans to the public	13.30	310,356	273,531
Provision for credit losses	13.30	(2,884)	(2,103)
Loans to the public, net	13.30	307,472	271,428
Loans to Governments	14	318	477
Investments in associated companies	15	127	69
Buildings and equipment	16	1,503	1,734
Intangible assets and goodwill	15.D	178	208
Assets with respect to derivatives	28	5,789	3,652
Other assets	17	3,773	3,071
Total assets		**428,292**	**392,271**
Liabilities and Equity			
Deposits from the public	18	344,514	307,924
Deposits from banks	19	6,994	6,992
Deposits from the Government		47	81
Bonds and subordinated notes	20	33,287	38,046
Liabilities with respect to derivatives	28	5,214	3,753
Other liabilities [(3)]	30.E, 21	13,368	13,746
Total liabilities		**403,424**	**370,542**
Shareholders' equity attributable to shareholders of the Bank		23,780	20,770
Non-controlling interests		1,088	959
Total equity	**24**	**24,868**	**21,729**
Total liabilities and equity		**428,292**	**392,271**

(1) Of which: NIS 11,241 million recognized on the financial statements at fair value (on December 31, 2021: NIS 11,685 million).
(2) For more information with regard to securities pledged to lenders, see Note 27.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 220 million (on December 31, 2021: NIS 211 million).

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity

For the year ended December 31

Reported amounts (NIS in millions)

	Share capital and premium[(1)]	Capital reserve with respect to share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[(2)]	Retained earnings[(3)]	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2019	**2,232**	**70**	**2,302**	**(332)**	**14,063**	**16,033**	**772**	**16,805**
Cumulative effect of initial application of US GAAP[(4)]	–	–	–	–	51	51	–	51
Adjusted balance as of January 1, 2020 after initial application	2,232	70	2,302	(332)	14,114	16,084	772	16,856
Net profit for the period	–	–	–	–	1,610	1,610	92	1,702
Dividends paid[(5)]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	23	23	–	–	23	–	23
Realization of share-based payment transactions[(6)]	6	(6)	–	–	–	–	–	–
Shares issued[(7)]	1,207	–	1,207	–	–	1,207	–	1,207
Other comprehensive income (loss), net, after tax	–	–	–	56	–	56	1	57
Balance as of December 31, 2020	**3,445**	**87**	**3,532**	**(276)**	**15,548**	**18,804**	**865**	**19,669**
Net profit for the period	–	–	–	–	3,188	3,188	102	3,290
Dividends paid[(5)]	–	–	–	–	(1,236)	(1,236)	–	(1,236)
Benefit from share-based payment transactions	–	41	41	–	–	41	–	41
Realization of share-based payment transactions[(6)]	52	(52)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(15)	(15)
Other comprehensive income (loss), net, after tax	–	–	–	(27)	–	(27)	7	(20)
Balance as of December 31, 2021	**3,497**	**76**	**3,573**	**(303)**	**17,500**	**20,770**	**959**	**21,729**
Opening balance adjustment for effect of initial application of US GAAP with regard to credit losses[(8)]	–	–	–	–	(355)	(355)	(3)	(358)
Adjusted balance as of January 1, 2022 after initial application	3,497	76	3,573	(303)	17,145	20,415	956	21,371
Net profit for the period	–	–	–	–	4,472	4,472	140	4,612
Dividends paid[(5)]	–	–	–	–	(941)	(941)	–	(941)
Benefit from share-based payment transactions	–	45	45	–	–	45	–	45
Realization of share-based payment transactions[(6)]	22	(22)	–	–	–	–	–	–
Dividends attributable to non-controlling interests in subsidiary	–	–	–	–	–	–	(15)	(15)
Other comprehensive income (loss), net, after tax	–	–	–	(211)	–	(211)	7	(204)
Balance as of December 31, 2022	**3,519**	**99**	**3,618**	**(514)**	**20,676**	**23,780**	**1,088**	**24,868**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).
(3) For details on various limitations on dividend distributions, see Note 24.
(4) Cumulative effect of initial application of generally accepted accounting principles for banks in the USA with regard to leases (ASU-2016-02) and updates there to.
(5) On March 15, 2022, August 30, 2022, December 13, 2022, November 30, 2021, August 31, 2021, March 11, 2020 dividends were paid amounting to NIS 272, 316, 353, 753, 483 and 176 million, respectively, in conformity with resolution by the Bank Board of Directors.
(6) In 2022, the Bank issued 676,867 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 7,450 ordinary shares of NIS 0.1 par value each.
In 2021, 1,432,671 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan.
In 2020, the Bank issued 266,111 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 17,840 ordinary shares of NIS 0.1 par value each.
(7) Includes shares issued in conjunction with acquisition of Union Bank.
(8) Cumulative effect of initial application of US GAAP with regard to financial instruments – credit losses (ASU 2016-13) and updates there to. See also Note 1.C.1.
– On March 13, 2023, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 326.1 million, or 30% of earnings in the fourth quarter of 2022. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2023.

The accompanying notes are an integral part of the financial statements.

Statement of cash flows – consolidated

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020
Cash Flows from Current Activity			
Net profit	4,612	3,290	1,702
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(5)	10	(1)
Depreciation of buildings and equipment (including impairment)	332	339	283
Expenses with respect to credit losses	532	(278)	1,050
Gain from sale of securities available for sale and shares not held for trading	14	(111)	(114)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(103)	26	(32)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	45	(97)	(38)
Gain from sale of buildings and equipment	(241)	(18)	(41)
Impairment of securities held for sale and shares not held for trading	45	9	–
Expenses arising from share-based payment transactions	45	41	23
Deferred taxes, net	(408)	78	(188)
Change in employees' provisions and liabilities	138	1,111	1
Adjustments with respect to exchange rate differentials	(463)	52	285
Gain from sale of loan portfolios	(8)	–	–
Accrual differences included with investment and financing operations	203	324	63
Net change in current assets			
Assets with respect to derivatives	(2,119)	858	(1,060)
Securities held for trading	(147)	815	647
Other assets, net	(15)	259	(630)
Net change in current liabilities			
Liabilities with respect to derivatives	1,461	(1,753)	1,690
Other liabilities	(2,163)	(824)	1,423
Net cash provided by current operations	**1,755**	**4,131**	**5,063**

The accompanying notes are an integral part of the financial statements.

Statement of cash flows – consolidated – continued

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020
Cash flows from investment activities			
Net change in deposits with banks	(202)	499	1,120
Net change in loans to the public	(36,246)	(24,087)	(16,038)
Net change in loans to Governments	159	136	43
Net change in securities loaned or acquired in resale agreements	1,017	(1,132)	(24)
Acquisition of bonds held to maturity	(1,821)	(447)	(954)
Proceeds from redemption of bonds held to maturity	851	1,247	1,216
Purchase of securities available for sale and shares not held for trading	(15,233)	(12,078)	(4,806)
Proceeds from sale of securities available for sale and shares not held for trading	17,132	8,316	4,751
Proceeds from redemption of securities available for sale	222	4,320	1,030
Proceeds from sale of loan portfolios	1,943	234	40
Acquisition of initially consolidated subsidiary – Union Bank	–	–	10,280
Purchase of loan portfolios – public	(2,306)	(1,778)	(733)
Purchase of loan portfolios – Government	–	–	–
Acquisition of buildings and equipment	(391)	(336)	(288)
Proceeds from sale of buildings and equipment	532	35	73
Purchase of shares in associated companies	(61)	(49)	–
Proceeds from realized investment in associated companies	8	1	2
Net cash used in investment activities	**(34,396)**	**(25,119)**	**(4,288)**
Cash flows provided by financing operations			
Net change in deposits from the public	36,590	23,700	36,372
Net change in deposits from banks	2	3,213	2,946
Net change in deposits from Government	(34)	11	41
Issuance of bonds and subordinated notes	5,038	7,304	2,010
Redemption of bonds and subordinated notes	(10,258)	(2,741)	(5,666)
Dividends paid to shareholders	(941)	(1,236)	(176)
Dividends paid to external shareholders in subsidiaries	(15)	(15)	–
Net cash provided by financing operations	**30,382**	**30,236**	**35,527**
Increase (decrease) in cash	(2,259)	9,248	36,302
Cash balance at beginning of the period	94,661	85,465	49,448
Effect of changes in exchange rate on cash balances	463	(52)	(285)
Cash balance at end of the period	**92,865**	**94,661**	**85,465**
Interest and taxes paid / received			
Interest received	11,577	10,938	7,679
Interest paid	5,416	2,393	2,258
Dividends received	36	20	15
Income taxes received	140	–	67
Income taxes paid	2,211	1,471	1,124
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	1	13	9
Sales of buildings and equipment	–	2	–
Shares issued in conjunction with acquisition of Union Bank	–	–	(1,207)

Statement of cash flows – consolidated – continued

For the year ended December 31

Reported amounts (NIS in millions)

Appendix B – Initial consolidation of Union Bank

	2020
Assets and liabilities acquired and cash paid, as of the consolidation date:	
Cash acquired	10,296
Assets (other than cash)	36,480
Liabilities	44,091
Identified assets and liabilities	2,685
Deferred credit balance from acquisition	(1,462)
Total acquisition cost	1,223
Less non-cash consideration paid	1,207
Consideration paid in cash	16
Less cash acquired	10,296
Net cash flow provided by consolidation of Union Bank	(10,280)

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) On March 13, 2023, the Bank's Board of Directors authorized publication of these consolidated financial statements as of December 31, 2022.

2) The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).
When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by banks in the United States.

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances stated in the directives – present annual financial statements on a consolidated basis only.
In conformity with approval of the Supervisor of Banks, the Bank presents its annual financial statements on a consolidated basis only.
For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 37 to the financial statements.

4) Definitions
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"Generally accepted accounting principles for banks in the United States" – Accounting rules which American banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in FAS 168 (ASC 105-10) – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in the American FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team of the US banking supervision authorities, with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"FASB" – Financial Accounting Standards Board in the USA.
"The Bank" – Bank Mizrahi-Tefahot Ltd.
"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.
"Bank Group" – The Bank and its subsidiaries.
"Associated companies" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associated companies is included in the financial statements using the equity method.
"Investees" – Subsidiaries and associated companies.
"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency" – The currency of the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.
"Presentation currency" – The currency in which the financial statements are presented.
"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchasing power of Israeli currency.
"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
"Cost" – Cost in reported amount.
"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Directives.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Preparation basis of the financial statements

1) Principles of financial reporting
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. See above in section A.2).

2) Functional currency and reporting currency
The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the principal economic environment in which then Bank operates. For information about the functional currency of overseas banking affiliates, see section D.1 below.

3) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:
- Financial derivative instruments and other financial instruments that are measured at fair value through profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Liability with respect to share-based payment;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities;
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employees' benefits;
- Investments in associated companies.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact implementation policies and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.
When formulating accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In its judgment when determining these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.
These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2022 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Adoption of updates to generally acceptable accounting practices by US banks – Financial instruments – Credit losses (ASU 2016 13) and other directives included in the Q&A file issued by the Supervisor of Banks on this matter, circular no. 2634-06 regarding implementation of generally acceptable accounting practices by US banks with regard to expected credit losses – revised public reporting regulations, circular no. 2635-06 regarding supervisory capital – effect of implementation of accounting practices with regard to expected credit losses, circular no. 2650-06 regarding expected credit losses from financial instruments – revised Proper Banking Conduct Directives, circular no. 2651-06 regarding implementation of accounting practices with regard to expected credit losses from residential mortgages – revised public reporting regulations.

Note 1 – Reporting Principles and Accounting Policies – continued

2. Discontinued use of LIBOR and transition to using alternative reference interest rates.
3. Update to Public Reporting Directive with regard to presentation of return on equity and quarterly revenue and expense rates on annualized basis.
4. Update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach credit risk.
5 The standard approach for calculation of counter-party credit risk exposure (SA-CCR)
6. Update to Proper Conduct of Banking Business Directive 203 – Calculation of standard capital allocation with respect to CVA.

Below is a description of the essence of changes applied to accounting policies in these condensed consolidated interim financial statements, and description of the initial implementation and any impact thereof:

1. Adoption of updates to US GAAP with regard to provision for credit losses and other directives (CECL)

On March 28, 2018, the Supervisor of Banks issued a letter with regard to "Adoption of updates to US GAAP with regard to provision for credit losses and other directives". The letter requires implementation of generally acceptable accounting practices by US banks on these matters: provisions for credit losses, financial instruments, including derivative instruments and hedging operations, as well as leases. Initial implementation is to be applied in conformity with transition provisions stipulated in US GAAP.

The letter adopts US GAAP with regard to expected credit losses, published in standards update ASU 2016-13. The new rules are designed to improve the quality of reporting of the banking corporation's financial standing, through earlier recognition and provisions for credit losses, in such way as to bolster the anti-cyclical element of behavior and provision for credit losses, supporting a faster response by banks to deterioration in borrower creditworthiness, and to reinforce the connection between credit risk management and how such risk is reflected on the financial statements, based on existing methods and processes.

Highlights of the changes in accounting treatment on financial statements of banking corporations, following implementation of these rules, include the following: Calculation of the provision for credit losses based on expected loss over the term of the credit, in lieu of estimating the loss incurred and yet to be identified; in estimating the provision for credit losses, significant use shall be made of forward-looking information to reflect reasonable, supported forecasts with regard to future economic events; expansion of disclosure of the impact of the lending date on the credit quality of the credit portfolio; change in recognition of impairment of bonds in the available-for-sale portfolio. The new rules for calculation of the provision for credit losses apply to loans (including residential mortgages), to bonds held to maturity and to certain off-balance sheet credit exposures.

On December 1, 2020, the Supervisor of Banks issued a circular regarding "Supervisory capital – Effect of implementation of accounting principles with respect to expected credit losses". This circular stipulates transitional provisions to be applicable to the effect of initial adoption of the new rules regarding expected credit losses, so as to reduce unexpected effects of application of these rules on supervisory capital, in conformity with guidance from the Basel Committee on Bank Supervision and supervisory authorities for banks in the USA and in other countries.

On January 31, 2021, the Supervisor of Banks issued a Q&A file regarding implementation of the new rules on expected credit losses. These Q&A include, inter alia, clarifications with regard to classification and return of debt under restructuring to the accrual track.

Moreover, on February 2, 2021, the Supervisor of Banks issued a circular regarding "Expected credit losses from financial instruments" which, inter alia, rescinded the requirement to calculate a group-based provision at a minimum of 0.35% with respect to residential mortgages, and rescinded the requirement to calculate the minimum provision by extent of arrears. Moreover, an amendment was made to Proper Conduct of Banking Business Directive 202 regarding "Supervisory capital", whereby banking corporations are required to deduct from Tier I capital amounts with respect to residential mortgages classified over time as non-accruing loans, similar to the calculation stipulated in Appendix H to Proper Conduct of Banking Business Directive 202.

Note 1 – Reporting Principles and Accounting Policies – continued

Due to implementation of the standard, the Bank adapted certain processes to the new rules regarding classification and review of problematic credit, classification of credit as not accruing interest revenues, rules for write-off and methodology for measurement of the provision. Moreover, disclosure requirements were adapted to requirements of US accounting standards, as adopted by the Supervisor of Banks in the public reporting directives, as described below.

The Bank applies the new directives with regard to provisions for credit losses as from January 1, 2022 and charged the cumulative effect to retained earnings upon initial application. The Bank also adopted upon the initial implementation date, certain relief, as allowed by the transition provisions, including recognizing the effect of initial application with regard to the effect on Tier I equity ratio over a 3-year period, in conformity with the specified transition provisions.

Below is a summary of the effect of transition to application of the new rules, as of January 1, 2022:

	December 31, 2021	Effect of CECL implementation	January 1, 2022
			NIS in millions
	(Audited)		(Unaudited)
1. Provision for credit losses			
Total provision for credit losses	2,103	378	2,481
Of which: Provision for credit losses – commercial portfolio	1,061	281	1,342
Of which: Provision for credit losses – residential mortgages	804	(40)	764
Of which: Provision for credit losses – private indivduals, other	238	137	375
2. Shareholders' equity			
Retained earnings	17,500	[(1)](355)	17,145
3. Capital adequacy and leverage[(2)]			
Tier I equity ratio	10.04	(0.08)	9.96
Total capital ratio	13.66	(0.06)	13.60
Leverage ratio	5.18	(0.03)	5.15

(1) The decrease in retained earnings with respect to increase in provision for credit losses, including provision with respect to off-balance sheet balances recognized under Other Liabilities and non-recognized interest revenues, and net of tax effect.

(2) The effect on the capital adequacy ratio includes the effect of net change in loans to the public, the deduction from capital with respect to residential mortgages in default for an extended period, and attribution of initial application over a 3-year period, in conformity with the transition provisions.

For more information about accounting policy with regard to impaired debt, credit risk and provision for credit losses, see section D.7. below.

2. Discontinued use of LIBOR and transition to using alternative reference interest rates

In conformity with the interest rate benchmark reform, inter-bank interest rates (IBOR rates) were discontinued and replaced by alternative interest rate benchmarks that may be observed or that are based on actual transactions, thus less sensitive to manipulation. Accordingly, a decision was made to gradually discontinue the use of LIBOR.

On October 3, 2021, the Supervisor of Banks issued a circular regarding Proper Conduct of Banking Business Directive 250A "Transition from LIBOR Interest Rates", so as to help in completing preparations of the banking system in Israel for this transition.

As from January 1, 2022, the Bank discontinued use of LIBOR for transactions conducted as from said date. For transactions in USD dating from prior to the transition date, the Bank continues to use LIBOR through June 2023. For transactions in other currencies dating from prior to the transition date, the reference interest rates have been replaced, this change did not materially impact the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

3. Update to Public Reporting Directive with regard to presentation of return on equity and quarterly revenue and expense rates on annualized basis

In conformity with the update, the Bank's financial statements as of December 31, 2022 include revision of comparative figures with respect to return calculations, including calculation of return on equity, for interim periods.

4. Update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach credit risk.

On May 22, 2022 the Supervisor of Banks issued a circular regarding an update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach credit risk, whereby loans designated for purchase of land for development or construction with an LTV over 80% of the value of the purchased property shall carry an increased risk weighting of 150%. For more information see Note 25.K. This change had no material impact on the financial statements.

5 The standard approach for calculation of counter-party credit risk exposure (SA-CCR)

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

On December 1, 2021, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directives which include, inter alia, addition of Proper Conduct of Banking Business Directive 203A regarding "Handling counter-party credit risk in conformity with SA-CCR.

For further details, see Note 25.J.

The Bank applies the Directive as from July 2022. Application of this directive has no material impact on the Bank's financial statements.

6. Update to Proper Conduct of Banking Business Directive 203 – Calculation of standard capital allocation with respect to CVA.

On August 15, 2022, the Supervisor of Banks issued a circular stipulating that the risk weighting attributed to a counter-party when calculating the capital allocation with respect to CVA, for securities companies, would be at 1%, in conformity with the risk weighting attributed to Israeli banks. This update is effective immediately. Application of this circular had no material impact on the Bank's financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

D. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate in effect as of the transaction date.

Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate effective as of the date on which the fair value is determined.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Gains or losses from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date, including with respect to exchange rate differences with respect to available-for-sale debt instruments which, according to the Public Reporting Directives, would continue to be recognized on the statement of profit and loss through December 31, 2022 (as stipulated in transitional provisions), recognized on the statement of profit and loss gains or losses from translation differences (non-interest financing revenues), except for:

- The effective portion of gain or loss with respect to a hedging instrument in a cash flow hedge.
- Exchange rate differentials with respect to items that are part of a net investment.
- Exchange rate differentials with respect to equity financial instruments classified as available for sale (except in a case of impairment, in which case translation differences recognized under Other Comprehensive Income are reclassified to profit and loss).

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as those whose functional currency is the same as the Bank's (NIS). Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Below is information about major official exchange rates, the Consumer Price Index and changes:

	As of December 31			Change rate in %		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
Consumer Price Index:						
CPI for December (points)	241.4	229.4	223.1	5.3	2.8	(0.7)
Known CPI for November (points)	240.8	228.7	223.3	5.3	2.4	(0.6)
Exchange rate of:						
USD (in NIS)	3,519	3,110	3,215	13.2	(3.3)	(7.0)
EUR (in NIS)	3,753	3,520	3,944	6.6	(10.8)	1.7

2) Consolidation basis

A. Subsidiaries in which the Bank does not hold more than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Directives.

For more information about the balance of the investment in investee companies and the contribution to net profit attributable to shareholders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included in the consolidated financial statements from the date control is achieved and through the date control is terminated. Accounting policies of subsidiaries were modified as needed, to align them with the accounting policies of the Bank.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders:

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the owners of the Bank and to non-controlling interests, even if this results in a negative balance of non-controlling interests.

D. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

3) Investment in associated companies

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.
Investment in associated companies is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs.
Investment in an associated company is evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such investment is not recoverable. Impairment is recognized when impairment is other-than-temporary in nature.
The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of investee companies treated according to the equity method. After required adjustments to align accounting policies with those of the Group, from the date when material influence is achieved through the date when material influence is discontinued.

4) Offset of assets and liabilities

The Bank offsets assets and liabilities arising from the same counter-party and will present their net balance on the balance sheet, when all of the following conditions are met:
- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities.
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.
However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.
Currently, it is Bank policy to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for extending credit, for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

5) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-accruing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-accruing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period on the outstanding recorded debt balance at the contractual interest rate. Interest revenues on a cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.

   When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to residential mortgages are recognized in the statement of profit and loss based on actual collection.

2) Securities – see section 6 below.

Note 1 – Reporting Principles and Accounting Policies – continued

3) Financial derivative instruments – see section 16 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project support, are recognized on a relative basis over the transaction term.

C. Commissions for loan generation and direct costs of loan generation are recognized over the term of the loan, as adjustment to return, except in case of re-structuring of problematic debt. If the commitment expired un-realized, the commissions are recognized upon expiration.

D. Credit allocation commissions are treated in conformity with the likelihood of realization of the commitment to extend credit. If it is highly unlikely, the commission is recognized on straight line basis over the commitment period, otherwise the Bank defers recognition of such commission revenues until the commitment is realized or until it expires, whichever is sooner. If the commitment is realized, the commissions are typically recognized by way of adjustment to return over the term of the loan, as noted above. If the commitment expired un-realized, the commissions are recognized upon expiration

E. Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms of the loan. Accordingly, the Bank evaluates whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the customer with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

F. Early repayment commissions

Early repayment commissions are immediately recognized under Interest Revenues, except for such commissions included as part of net investment in the new loan, which are recognized as an adjustment of yield.

G. Other revenues and expenses – are recognized on the accrual basis.

6) Securities

A. Securities in which the Bank invests are classified as follows:

1) Bonds held to maturity – bonds which the Bank intends and is able to hold to maturity, except for bonds subject to early redemption or other disposal, such that the Bank would not recoup substantially all of its recognized investment. Bonds held to maturity are carried on the balance sheet at par value plus interest and linkage differentials and accrued exchange rate differentials, considering the relative share of premium or discount and net of loss with respect to other-than-temporary impairment.

2) Bonds available for sale – bonds not classified as bonds held to maturity or as securities held for trading. Bonds available for sale are carried on the balance sheet at fair value as of the reporting date. Any unrealized gains or losses from adjustment to fair value are not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income, except for loss with respect to other-than-temporary impairment. For securities which include embedded derivatives – see section 16.C below.

3) Securities held for trading – securities acquired and held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. Securities held for trading are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.

Note 1 – Reporting Principles and Accounting Policies – continued

4) Shares not held for trading

Shares that have an available fair value are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustment to fair value are charged to the statement of profit and loss. Shares for which no fair value is available are carried on the balance sheet at cost net of impairment, plus or minus observed price changes in ordinary transactions for similar or identical investments of the same issuer. Unrealized gains or losses from the adjustments to such observed price changes are recorded to the statement of profit and loss.

B. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit & loss when the Bank has the right to receive them, up to the amount of earnings accumulated since this investment was acquired.

C. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of hedging relations, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

D. With regard to calculation of fair value, see section 17 below.

E. Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically evaluates whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for bonds held to maturity), is of an other-than-temporary nature.

To this end, the following indicators, inter alia, are evaluated:
- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Evaluation of conditions reflecting the financial standing of the issuing entity, including whether or not the impairment is due to individual reasons related to the issuer or to existence of any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:
- Bond sold prior to publication of the issue date to the public of the report for that period.
- Bond which, close to the issue date of the report to the public for that period, the Bank intends to sell within a short time.
- Bond is significantly impaired between the bond’s rating on the date of acquisition by the Bank and its rating on the date of publication of the report for that period.
- Bond classified by the Bank as problematical after its acquisition.
- Bond which is in payment default after its acquisition.
- Bond whose fair value as of the end of the reported period and close to the issue date of the financial statements, was significantly lower than its amortized cost. Unless the Bank has solid objective evidence and careful analysis of all relevant factors, which prove with high certainty that impairment is of other than a temporary nature.

Note 1 – Reporting Principles and Accounting Policies – continued

For this purpose, a significant rate is a rate higher than 20%. However, should the Bank have objective evidence that impairment is of a temporary nature, an exception may be made with regard to this rate.

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written down to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are recognized to a separate section in equity under Cumulative Other Comprehensive Income, and are not recorded in profit and loss.

Securities – shares for which no fair value is available

In each reported period, the Bank conducts a qualitative assessment, taking into account impairment indications, in order to assess whether shares for which no fair value is available have been impaired. If this assessment shows impairment of the investment in shares, the Bank estimates the fair value of the investment in shares, to determine the amount of impairment loss.

7) Non-accruing debt, credit risk and provision for credit losses

Identification and classification of non-accruing debt (in lieu of impaired debt)

The Bank has specified procedures for identification of problematic credit and for classification of debt so as to distinguish between problematic debt, including non-accruing debt, and debt in good standing. According to these procedures, the Bank classifies all its problematic debt and off-balance sheet credit items under these classifications: special supervision, inferior or non-accruing. Debt classified as non-accruing debt, where based on current information and events it is expected that the Bank would not be able to collect all amounts due in conformity with contractual terms and conditions of the debt agreement.

For classification and treatment of problematic credit, the Bank distinguishes between the following:

A. Commercial credit with respect to debt with contractual balance over NIS 1 million

Decisions with regard to debt classification and the required provision are made based, inter alia, on the past-due status of the debt, assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, existence of collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

In any case, such commercial debt is classified as non-accruing debt when its principal or interest is in arrears for 90 days or longer, unless the debt is well secured and is in collection proceedings, or if the debt has undergone restructuring of problematic debt.

As from the classification date as non-accruing debt, debt is treated as debt not accruing interest income (such debt is known as "non-accruing debt").

For more information about accounting write-off rules with respect to such debts, see section "Accounting write-off" later in this section.

B. Credit to individuals, residential mortgages and commercial credit with respect to debt with contractual balance below NIS 1 million

Decision on debt classification is based on the state of arrears of such debt. To this end, the Bank monitors the arrears days determined with reference to contractual repayment terms thereof.

Such debt, in arrears 90 days or longer, is classified as inferior debt when the Bank does not discontinue accrual of interest income, except for residential mortgages which are classified as debt not accruing interest income when principal or interest with respect there to is in arrears 90 days or longer.

For more information about accounting write-off rules with respect to such debts, see section "Accounting write-off" later in this section.

Note 1 – Reporting Principles and Accounting Policies – continued

Policy on debt re-structuring and treatment of problematic debt under re-structuring

In order to determine whether a debt re-structuring conducted by the Bank constitutes re-structuring of problematic debt, the Bank conducts a qualitative review of all terms and conditions of the re-structuring and the circumstances thereof, in order to determine whether:

(1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank considers if there are any indications that the creditor is in duress upon the re-structuring date, or existence of a reasonable likelihood that the creditor would be in financial duress if not for the re-structuring.

The Bank also concludes that a concession was made to the debtor in conjunction with the arrangement, even if the contractual interest rate was increased in the arrangement – if one or more of the following exists:

- Due to re-structuring, the Bank is not expected to collect the entire debt amount (including interest accrued in conformity with contractual terms and conditions);
- The current fair value of collateral, for debts contingent on collateral, does not cover the contractual debt balance and indicates that the entire debt amount may not be collectable;

The Bank does not classify debt as restructured problematic debt, if the re-structurung results in insignificant delay in repayment considering the payment frequency, the contractual term to maturity and the original term to maturity of the debt. For this matter, if multiple arrangements took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous structurings in order to determine whether the deferral of payments is insignificant.

In general, re-structuring which results in delayed payments by 90 days or longer compared to the contract is considered a re-structuring that results in significant delay in repayment.

Handling debts under re-structuring and subsequent re-structuring

Debt whose terms were modified by re-structuring of problematic debt would be classified as non-accruing debt. In general, re-structured problematic debt would continue to be classified as non-accruing debt until fully repaid. However, under certain circumstances, when the debt underwent re-structuring of problematic debt and later on the Bank and the debtor entered into a subsequent re-structuring agreement, the Bank is no longer required to treat this debt as debt that underwent re-structuring of problematic debt, subject to meeting both of the following conditions:

a. The debtor is no longer in financial difficulties upon the subsequent re-structuring date.
b. According to terms of the subsequent re-structuring, the Bank has not granted a waiver to the debtor (including not granted a waiver for principal on cumulative basis as from the original loan origination date).

Debt whose terms were modified by re-structuring of troubled debt may be classified as debt accruing or non-accruing interest revenues upon the modification date.

Moreover, classification of debt as debt that underwent re-structuring of problematic debt does not automatically require the debt to be classified as problematic. However, upon the modification date of the terms, the Bank would re-assess the required classification, taking into account all of the factors relevant for risk assessment, including the extent of the debtor's financial difficulties.

Furthermore, debt classification as debt that underwent re-structuring of problematic debt does not automatically cause such debt to remain classified as problematic for its remaining term, even if the debt was classified as problematic debt prior to or upon the re-structuring date. Debt that underwent re-structuring of problematic debt shall be classified under a negative classification if the debt, after the change in terms, is not sufficiently protected by the present value and repayment capacity of the debtor or by any pledged collateral. Debt that underwent re-structuring of problematic debt would be classified under special supervision if, after the re-structuring, the debt still has potential weaknesses.

Note 1 – Reporting Principles and Accounting Policies – continued

Re-instatemen of non-accruing debt to accruing debt status

Typically, non-accruing debt is re-instated to accruing debt status in either of these two cases:

A. It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
B. When the debt has become well-secured and is in collection proceedings.

Moreover, for debt which has undergone formal re-structuring of problematic debt, which was classified as non-accruing debt upon the date of change in terms and conditions, the Bank may reinstate the debt in accruing status, provided that a current, documented credit analysis has been prepared which supports re-instatement of accruing status based on the debtor's financial standing and the repayment likelihood base on the current terms and conditions. Such assessment is based on the debtor's continuous historical repayment performance for payments in cash and cash equivalents over as reasonable period of six months or longer.

Furthermore, ith regard to debt which has undergond formal re-structuring of problematic debt, which was classified as accruing debt prior to such re-structuring, the Bank may continue to accrue interest, proided that after such re-structuring the colletion of principal and interest in conformity with the revised terms and conditions is reasonably assured, based on a current, well-based credit analysis, provided that the debtor has a history of continuous repayment performance for a reasonable period priror to such changes and that re-structuring has improved the likelihood of the loan being collected in conformity with a reasonable repayment schedule.

As from January 1, 2022, these provisions with regard to treatment of problematic debt under re-structuring apply to residential mortgages.

According to directives included in the Q&A for application of new rules with regard to expected credit losses, the Bank has elected to apply the new rules with regard to identification of re-structuring of problematic debts, and to measure the provision for credit losses using the method required pursuant to these rules for debts under re-structuring of problematic debt, with respect to changes made to residential mortgages prior to January 1, 2022.

Provision for credit losses – measurement

As noted above, as from January 1, 2022, the Bank applies generally acceptable accounting practices by US banks with regard to measurement of credit losses from financial instruments, as set forth in topic 326 of the codification (ASC 326) "Financial instruments – credit losses".

As part of the application of this standard, the Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed for an appropriate provision to cover expected credit losses with regard to bonds held to maturity and the portfolio of bonds available for sale and certain off-balance sheet credit exposures.

The estimated provision for expected credit losses is calculated over the contractual term of the financial asset, taking into account estimated early repayment.

In developing the estimated expected credit losses, the Bank accounted for the effects of past events, current terms and conditions and reasonable forecasts which can be founded about collectability of the financial assets.

In general, calculation of the provision for expected credit losses is estimated on group basis when assets have similar risk attributes. These attributes include the following: (1) Credit score or rating, either internal or external; (2) risk rating or risk classification; (3) type of financial asset; (4) type of collateral; (5) size; (6) borrower's operating sector.

For each group of financial assets with similar risk attributes, the Bank calculates the provision for expected credit losses using one of the methods for measurement of such provision as allowed by the standard, which the Bank expects should result in the best estimate of provisions for credit losses.

In order to estimate expected credit losses over the contractual terms of the assets, the Bank relies on historical information, reviewing the need to adjust such historical information to reflect the extent to which current conditions and reasonable forecasts which can be founded differ from those in the period when the historical information was assessed.

Note 1 – Reporting Principles and Accounting Policies – continued

When the reasonable period that may be founded, as determined by the Bank, is shorter than the duration of the financial asset, the Bank resumes use of historical information not adjusted for current economic conditions nor for expectations of future economic conditions, such as: change in unemployment rate, asset values, commodity values, arrears and so forth. The return to information about historical losses may be in one of the following methods: (1) Immediate return; (2) return on straight line basis; (3) use of another logical and methodical basis.

Provision for credit losses – consumer loans (non-residential mortgages)

For the consumer loan portfolio, which includes loans to individuals, other than residential mortgages, the Bank measures the provision for expected credit losses using a model which calculates the probability of default (PD) and the loss given default (LGD) ("the PD/LGD Method"), by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the consumer loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – residential mortgages

For the residential mortgage portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, term to maturity, loan age and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the residential mortgages portfolio and because the Bank does not generate forecasts for periods longer than one year, return to historical default rates is gradual over half of the average duration in the residential mortgage portfolio – 4 years.

Provision for credit losses – retail business loans

For the retail business loan portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the retail business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – business loans

For the business loan portfolio, the Bank measures the provision for expected credit losses by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth. The provision is determined by a method which calculates the average historical loss rates for each segment (WARM method).

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – large-scale loans with unique risk attributes

For loans extended for project financing and loans extended for financing of means of control (where loans are in excess of 0.5% of Bank equity), the Bank measures the provision for expected credit losses based on the PD/LGD method, with the calculation based on rating information from global rating agencies (Moody's / S&P).

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. Similar to the business credit segment, return to historical default rates is immediate after one year.

Note 1 – Reporting Principles and Accounting Policies – continued

Provision for credit losses – loans to governments and banks

For loans to governments and banks, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal and external rating, type of financial asset and so forth.

The Bank has also set criteria and factors to be taken into account in order to determine that for some exposures to governments, the expected credit losses are near zero.

Provision for credit losses – off-balance sheet exposures

Off-balance sheet exposures include credit exposures with respect to commitment to extend credit, letters of credit, financial guarantees not treated as insurance and other similar instruments.

The provision for credit losses with respect to off-balance sheet exposures is assessed in conformity with rules set forth in Topic 326 of the codification, based on the provision rates determined for on-balance sheet credit (as described above), taking into account the expected credit realization rate upon default of the off-balance sheet exposure risk, in conformity with Basel coefficients.

The Bank does not calculate an estimated provision for expected credit losses with respect to off-balance sheet commitment to extend credit which may be un-conditionally terminated by the Bank.

Provision for credit losses – securities in portfolio held to maturity

For securities in the portfolio held to maturity, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as issuer type, duration, interest rate, payment frequency and so forth.

The Bank does not measure expected credit losses with respect to certain government bonds, because the information about historical credit losses, adjusted for current conditions and for reasonable forecasts that may be founded, results in expectation that non-payment of the amortized cost basis is zero.

Provision for credit losses – bonds available for sale

The Bank estimates the expected credit losses with respect to bonds available for sale upon each reporting date, when the fair value is lower than the amortized cost.

Whenever the fair value is lower than the amortized cost, the Bank reviews whether the impairment of fair value is due to credit losses or to other factors. Impairment resulting from credit losses is recognized by way of a provision for credit losses, and impairment not recognized by way of a provision for credit losses is recognized under Other Comprehensive Income, net of tax.

In conformity with provisions of Topic 326 of the codification, the Bank calculates the provision for expected credit losses for securities available for sale individually, using the discounted cash flow method, used by the Bank to compare the present value of expected future cash flows, determined based on past events, current conditions and reasonable forecasts that can be founded (such as: sector, geographic, economic and political factors relevant for collectability of the bond), to the amortized cost basis of the securities. Such provision is recognized against an expense with respect to credit loss, to reflect the credit loss component of impairment of the fair value to below the amortized cost. The provision for credit losses with respect to bonds available for sale is capped and may not exceed the difference between the amortized cost and the (lower) fair value, known as "fair value floor".

If the fair value of the securities increases over time, any provision for credit losses which has not been written off is reversed by reducing the expense with respect to credit losses.

Provision for credit losses – net lease investments

For the balance of net lease investments recognized by a lessor in conformity with Topic 842 of the codification regarding leases. The impact of application of this standard is insignificant.

Provision for credit losses – loans evaluated on individual basis

For commercial loans with contractual balance over NIS 1 million, classified as non-accruing, for which specific issues have been identified unlike attributes of other debts, the Bank applies the discounted cash flow method, calculated for each and every debt to determine the provision for credit losses on individual basis.

Note 1 – Reporting Principles and Accounting Policies – continued

Reviews of overall appropriateness of the provision

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on Management discretion, taking into account the inherent risk in the loan portfolio and weaknesses and restrictions of assessment methods applied by the Bank to determine the provision.

Accounting write-off

The Bank makes accounting write-offs of any debt, or part thereof, considered to be uncollectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection efforts by the Bank (typically defined as terms in excess of two years).

For debt secured by collateral, the Bank immediately conducts an accounting write-off against the balance of provision for credit losses, for the portion of recorded debt balance in excess of fair value of the collateral.

For commercial loans with respect to debt with contractual balance (without deduction of any write-offs not subject to legal waiver, un-recognized interest, provisions for credit losses and collateral) lower than NIS 1 million, and loans to individuals, other than residential mortgages, the Bank conducts an accounting write-off when such debt is in arrears 150 days or longer. Note, in this regard, that for debt secured by collateral other than a residential apartment, and seizure of the collateral has started and is certain, the Bank only conducts an accounting write-off of the excess recorded debt balance over the collateral value (net of selling costs).

For residential mortgages secured by a residential property, the Bank conducts a current assessment of collateral value, no later than the date when the debt is in arrears 180 days or longer, and conducts an accounting write-off of the excess recorded debt balance over the collateral value (net of selling costs).

Note that accounting write-offs do not involve a legal waiver, and only reduce the reported debt balance for accounting purposes, by creating a new cost basis for the debt on Bank books.

Disclosure requirements

The Bank applies disclosure requirements for creditworthiness of debt and for provision for credit losses, as stipulated in codification section 310-10 "Debts" and in conformity with disclosure requirements in codification section 326-20 "Financial instruments – credit losses – instruments measured at amortized cost", on consolidated basis.

See also Note 13 regarding "Credit risk, loans to the public and provision for credit losses" and Note 30 regarding "Additional information about credit risk, loans to the public and provision for credit losses"

The Bank has adapted these disclosures to the new disclosure format and to disclosure with regard to non-accruing debts, in lieu of impaired debts, with re-classification of comparison figures, to adapt them to the new disclosure format, except for disclosure requirements with respect to credit quality by year when credit was extended, which does not require comparison figures for periods prior to initial application.

8) Transfer and service of financial assets and discharge of liabilities

The Bank applies the measurement and disclosure rules stated in sub-topic 860-10 of the codification, with regard to transfer and service of financial assets, for handling the transfer of financial assets and discharging of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements, or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, *inter alia*, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or determinable price.
- The agreement is made simultaneously with the transfer.

Note 1 – Reporting Principles and Accounting Policies – continued

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of presentations or obligations, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and has been released from its commitment for said liability; or (b) the Bank was legally released in a judicial process or by consent of the lender, being the major debtor for said liability.

For details of syndication transactions, see Note 30 to the financial statements.

Transactions for loaning securities managed as credit transactions

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Handling un-secured loaning of securities from the available-for-sale portfolio or from the trading portfolio.

When the Bank loans securities to cover short selling by the borrower, the Bank de-recognizes the loaned securities and recognizes credit equal to the market value of these securities on the loaning date. In subsequent periods, the Bank measures the credit extended in the same way it measured the securities prior to loaning. Credit is measured at market value, revenues on the accrual basis are recognized as interest income from credit and changes to market value (in excess of changes on the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of bonds available for sale. Upon concluding the loaning, the Bank recognizes once again the securities and de-recognizes the credit.

9) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition and Measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.

When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.

Note 1 – Reporting Principles and Accounting Policies – continued

The cost of purchased software, which is an integral part of operation of related equipment, is recognized as part of the cost of such equipment. Furthermore, in conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use. For more information about the accounting treatment of the cost of software for in-house use, see below.
Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its book value and are recognized, net, under "Other revenues" in the statement of profit and loss.
Transactions whereby the Bank sells a property and leases it back under an operating lease are treated as accounting sale transactions, and the full profit with respect there to is recognized, subject to fulfillment of conditions for recognizing the sale.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.
Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the length of useful life, whichever is shorter. Owned land is not depreciated.
An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.
In view of the merger process of Union Bank with the Bank, we reviewed the estimates with regard to useful life of fixed asset items at Union Bank, and adjustments were made to these estimates accordingly.
For more information about estimated useful life of buildings and equipment, as of December 31, 2022, see Note 16 to the financial statements.

Impairment

The Bank reviews non-current assets (or asset groups) for impairment when events or changes in circumstances occur, indicating that the depreciated cost may not be recoverable.
For the purpose of impairment evaluation and measurement, the Bank groups an asset (or asset group) together with other assets and liabilities at the lowest level that generates cash flows, which is independent of cash flows for other groups of assets and liabilities. Impairment loss recognized is only charged to an asset (or asset group) within the scope of Section 360 of the Codification.
Impairment loss is only recognized if the carrying amounts of a non-current asset (asset group) is not recoverable and exceeds its fair value. The book value is not recoverable if it exceeds total non-capitalized cash flows expected from use of the non-current asset (asset group) and its realization.
Impairment loss is equal to the difference between the book value of the non-current asset (asset group) and its fair value, and is charged to the statement of profit and loss.
When impairment loss is recognized, the adjusted book value of the non-current asset (asset group) becomes the new cost basis. These losses are not canceled in subsequent periods, even in case of appreciation.

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others. The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for capitalization of each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

Note 1 – Reporting Principles and Accounting Policies – continued

In conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.

Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss.

Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct costs of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.

In subsequent periods, capitalized development costs are measured at cost net of accumulated amortization and impairment loss.

Subsequent costs

Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional functionality. Other subsequent costs are recognized as an expense when incurred.

Amortization

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Intangible assets generated from a software project are amortized to the statement of profit and loss using the straight line method over the useful life of the software but not to exceed 5 years, as noted above, as from the date on which the software is ready for its designated use. In this regard, the software is ready for its designated use when all material testing has been completed.

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that it is possible that the book value of the asset may not be recovered.

Events or changes in circumstances which may indicate impairment are:

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made in the future;
- The costs of development or adaptation of software designated for in-house use significantly exceed the amount anticipated in advance.

When it is no longer expected that software development would be completed, the Bank adjusts the book value of the software to be the lower of its book value and fair value net of selling costs.

10) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".

Intangible assets of un-specified useful life are amortized to the statement of profit and loss using the straight line method over the useful life of the intangible assets, as from the date on which these assets are available for use.

Intangible assets with unspecified useful life are evaluated if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is an evaluation of whether the book value of the asset group is higher than the non-discounted cash flow amount expected to result from it. If so, impairment is to be recognized equal to the difference between the book value and the fair value of the asset group. Impairment is to be proportionately attributed solely to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.

Assets of unspecified useful life are reviewed for impairment at least once per year. They should be evaluated as to whether the book value of the asset exceeds its fair value. If so, impairment is to be recognized, to the extent to the difference between the book value and the fair value.

Goodwill is not systematically amortized.

Development costs of acquired software or costs capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

Note 1 – Reporting Principles and Accounting Policies – continued

11) Leases

Contracts that confer on the Bank control over use of an asset in conjunction with a lease for a certain duration in exchange for consideration, are accounted for as leases. Upon initial recognition, a liability is recognized equal to the present value of future rent payments during the lease term (these payments exclude variable lease payments) and concurrently, a right-to-use asset is recognized equal to the amount of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs incurred with respect to the lease.

The lease term is the period for which the lease may not be terminated, along with periods subject to an option to extend or terminate the lease, if it is reasonably certain that the lessee would or would not exercise such option, respectively, and along with periods subject to an option to extend or terminate the lease where the lessor has control over the right to exercise such option.

The Bank has elected to apply the practical relief whereby short-term leases, for terms of up to one year, are accounted for by recognizing the lease fees to profit and loss using the straight line method over the lease term, without recognizing a right-to-use asset and/or liability with respect to the lease on the statement of financial position.

Subsequent measurement

After initial recognition, liabilities with respect to leases (whether an operational lease or a financial lease) are measured at amortized cost using the effective interest method. Moreover, the Bank reviews a right-to-use asset (with respect to operational or financial lease) for impairment in conformity with provisions of sub-topic 360-10-35 of the codification with regard to impairment with respect to fixed assets.

Lease payments

Operational lease

Lease payments, other than variable leasing fees, are charged to profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term. Variable lease payments which depend on an index or on interest are recognized on the statement of profit and loss in the period when varied. Variable lease payments which do not depend on an index or on interest are recognized on the statement of profit and loss in the period when it is expected that the specific objective resulting in variance of the lease payments would be achieved, and are reversed in the period when that specific objective is no longer expected to be achieved.

Upon each subsequent reporting date, a right-to-use asset is recognized equal to the depreciated cost of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs yet to be amortized and net of impairment loss accumulated with respect to the right-to-use asset.

Financing lease

After the lease start date, the right-to-use asset is measured at cost net of accumulated depreciation and net of any accumulated impairment loss, and is adjusted for re-measurement of the lease liability. Depreciation is calculated using the straight line method over the useful life or over the contractual lease term.

12) Contingent liabilities

The financial statements include appropriate provisions with respect to claims to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

A. Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.

C. Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

See Note 26.C.10 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of shareholders' equity attributable to shareholders of the Bank.

Likewise, Note 26.C.11 provides disclosure of motions for recognition as class actions, when the amount claimed in them is material which, in the opinion of the Bank's Management, based, according to the case, on the opinion legal counsel, the subsidiaries' managements and on the opinion of their legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

13) Employees' rights

The Bank applies the Supervisor of Bank's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives"):

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employees' benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that cases where the Bank expects payment of benefits beyond contractual terms, would match these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government bonds in Israel plus the average spread for corporate bonds rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government bonds, all as of the reporting date.

Below are details of benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly examines the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank applies the Supervisor of Banks' guidelines with regard to internal controls over the financial reporting process with regard to employees' rights, including with regard to review of a "commitment in substance" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without use of discount rates and actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employees' benefits, see Note 22 to the financial statements.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates:

The actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) – and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") is included under Cumulative Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Cumulative Other Comprehensive Income and would decrease the loss balance recorded as noted above – down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

Principles of accounting treatment of the streamlining plan:

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system , and later on in a letter dated June 13, 2017, the Supervisor of Banks granted capital relief with regard to streamlining programs in labor expenses, cost of real estate and maintenance of headquarters and management units. In this relief, the effect of streamlining programs on supervisory capital is attributed in a straight line over five years, for calculation of capital adequacy ratios.

On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, approved by the Supervisor of Banks, including a voluntary retirement program and reduction of real estate areas. On December 31, 2018, the Union Bank Board of Directors approved a streamlining program, which was also approved by the Supervisor of Banks.

The effect of relief with respect to the streamlining programs on the Tier I capital is negligible.

Note 1 – Reporting Principles and Accounting Policies – continued

14) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options granted to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the granted options. Expenses are recognized based on fair value of the options on the grant date, concurrently with an increase in capital over the term of service for which the options are granted.

When determining the fair value of options upon the grant date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit grant) have no impact on determining fair value upon the grant date and are reflected in current expensing of the benefit granted. As allowed by the standard, the Bank treats each granted lot as a separate grant.

As for a grant in the ordinary income track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense amount in the accounts, multiplied by the tax rate. Upon exercise of the options, when the allowed expense for income tax exceeds the expense recognized in the accounts, the difference, multiplied by the tax rate, would be recorded to profit and loss. As for the capital track, the Taxes Authority does not recognize expenses upon option exercise.

15) Guarantees

Guarantees are contracts which require the guarantor, on contingent basis, to make payments to the guaranteed party upon occurrence of conditions requiring the guarantee to be exercised. The guarantee obligation is measured upon initial recognition at the higher of the fair value or the amount of expected loss provisions with respect to them. The obligation is de-recognized when the Bank no longer bears the risk.

16) Derivative instruments and hedging activities

A. The Bank performs transactions in derivative instruments, including currency and interest contracts and credit derivative contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risks, including basis and interest risks – risks to which the Bank is exposed in its everyday activities.

B. Derivative instruments are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivative instruments, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative instrument, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. Changes in fair value of detached embedded derivatives are immediately charged to profit and Loss.

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. These policies was adopted for structured securities in the available-for-sale portfolio.

Hedge accounting

The Bank is exposed to market risks due to its business operations. As part of the Bank's overall strategy for management of exposure to such risks, the Bank designates certain financial instruments as fair value hedges and as cash flow hedges.

Note 1 – Reporting Principles and Accounting Policies – continued

Upon the hedge relationship start date, the Bank formally documents the hedge relationship and the objective of its risks management and strategy for executing this hedge. Documentation includes identification of each of the following: Hedging instrument; hedged item or transaction; nature of hedged risk; method to be applied by the Bank to assess the effectiveness of hedge relationship, offsetting exposure to changes in fair value of the hedged item (for fair value hedge), or offsetting exposure to changes in cash flows with respect to the hedged transaction (for cash flow hedge), attributable to the hedged risk.

Fair value hedge

The Bank designates derivative instruments as hedges for exposure to changes in fair value of an asset or liability, or an identified part of them, which is attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for fair value hedge, the changes to fair value included in assessment of the hedge effectiveness are currently recognized in the statement of profit and loss, presented under the same item as effects of the hedged item. Gain or loss (i.e. change in fair value) with respect to the hedged item attributable to the hedged risk is accounted for as adjustment to the book value of the hedged item and is currently recognized in the statement of profit and loss. The adjustment to book value amount of the hedged item shall be accounted for similarly to other components of the its book value.

The preliminary value of components excluded from assessment of hedge effectiveness is recognized in the statement of profit and loss, methodically and rationally over the term of the hedging instrument, with the difference between changes to fair value of components excluded from assessment of hedge effectiveness and amounts methodically and rationally recognized in the statement of profit and loss, recognized under Other Comprehensive Income.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Amount in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss in the period when the hedged item was de-recognized from the accounts. For all other discontinued fair value hedges, Amounts in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss similarly to other components included in the book value of the hedged asset or liability.

Cash flows hedges

The Bank designates derivative instruments as hedges for exposure to changes in expected future cash flows attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for a cash flow hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized in Other Comprehensive Income. These amounts are reclassified to the statement of profit and loss in the period(s) in which the hedged anticipated transaction impacts earnings, and are presented under the same item as effects of the hedged item.

The Bank has elected to regularly recognize changes to fair value of components excluded from assessment of hedge effectiveness in profit and loss, under the same item as effects of the hedged item.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Net gain or loss with respect to the hedging instrument, related to a discontinued cash flow hedge, continue to be reported under cumulative Other Comprehensive Income (AOCI), unless it is probable that the anticipated transaction would not take place by the end of the original term determined (as documented at the start of the hedging relationship), or within two months thereafter.

If the anticipated hedged transaction is not expected to take place, whether by the end of the original term determined or within two months thereafter, net gain or loss with respect to the hedging instrument reported in cumulative Other Comprehensive Income is immediately reclassified to the statement of profit and loss.

Economic hedge

Hedge accounting is not applied for derivative instruments used as part of the Bank's asset and liability management (ALM). Changes to fair value of such derivatives are recognized in profit and loss when created.

Note 1 – Reporting Principles and Accounting Policies – continued

17) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of an asset, or the price which would have been paid upon transfer of a liability, in a regular transaction between market participants on the measurement date. The standard requires, *inter alia*, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available in the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank. Sub-topic 820-10 of the codification lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data in active markets, or in non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivative instruments that it issued and are measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk for derivative instruments as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative instrument at a high legal level of certainty, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions in an active market of the credit quality of the counter party, if such indications are available with reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to guidelines stated in the standard, the Bank is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable bonds of the counter-party) – shall be classified as a Level 3 fair value measurement.

How fair value is determined:

1) Securities

Fair value of securities held for trading, bonds available for sale and shares not held for trading is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units at the aforementioned quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's position relative to the trading volume (holding size factor).

If such quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.), except for shares not held for trading for which no fair value is available, which are measured as stated in paragaph 6 A4 above.

Note 1 – Reporting Principles and Accounting Policies – continued

2) Financial derivatives

Financial derivative instruments with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial instruments not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the financial instrument. To this end, the future cash flows for impaired and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

B. Fair value option

Sub-topic 825-10 of the codification allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gains and losses due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, the standard stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

18) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are recorded to the statement of profit and loss, or recorded directly to equity if they arise from items directly recognized in equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Law. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

Note 1 – Reporting Principles and Accounting Policies – continued

A. Current taxes

Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B Deferred taxes

Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.

The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accumulated since January 1, 2017.

The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.

Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

C. Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions

The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the tax authorities or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

19) Earnings per share

The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.

Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options granted to employees.

20) The Bank's operating segments

A. Supervisory operating segments

A supervisory operating segment is a Bank component engaged in certain activities or grouping customers in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Directives by the Supervisor of Banks.

A supervisory operating segment is mostly specified in terms of customer classification. Individual customers are classified based on financial assets for the household and private banking segments. Customers other than individuals are primarily classified based on their turnover for business segments (separated into small and micro business, medium business and large business), institutional entities and the financial management segment.

Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on the management approach, when such operating segments materially differ from the supervisory operating segments.

Note 1 – Reporting Principles and Accounting Policies – continued

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to customer categorization by operating segments based on their volume of revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize customers into operating segments based on other parameters, in line with total customer indebtedness. Thus, in some cases listed in the Q&A file, customers may be categorized based on the number of employees or total assets on their balance sheet. If this information is also not available, the customer may be categorized, in such cases, based on its total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – the management approach

In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with the management approach" should be provided in conformity with generally acceptable accounting practices by banks in the United States with regard to operating segments (included in ASC 280), if there is a material difference between the management approach and supervisory reportable segments.

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In flaw, there is a correlation between the supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in customer attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

For more information about criteria for customer classification into supervisory segments and into segments in conformity with the management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

21) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the manner of treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning the accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

Note 1 – Reporting Principles and Accounting Policies – continued

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Amendment	Publication requirements	Start date and transition provisions	Implications
Update to standard ASU 2022-01 regarding improvements to application of fair value hedge accounting using the layer method	On March 28, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-01 regarding improvements to application of fair value hedge accounting using the layer method in the portfolio, designed to best align hedge accounting with the company's risk management policy (hereinafter: "the Update"). Highlights of amendments in the Update include, *inter alia*, expansion of the final layer method so as to allow for hedging of multiple layers, clarifications with regard to accounting treatment and additional disclosure requirements.	In conformity with directives of the Supervisor of Banks	The Bank is reviewing the effect of the new provisions on its financial statements
Update to standard ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended	On March 31, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended with regard to provisions for credit losses (hereinafter: "the Update"). The Update rescinds the provisions regarding re-structuring of problematic debts by lenders, improving the disclosure requirements with respect to borrowers facing economic challenges. The Update also adds a disclosure requirement regarding gross write-offs by year when credit was extended.	In conformity with directives of the Supervisor of Banks	The Bank is reviewing the effect of the new provisions on its financial statements
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale bonds as part of fair value adjustment of such bonds, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2023.	January 1, 2024	The Bank monitors the transition provisions and would prepare accordingly should the Directive become effective, so that no material impact on the financial statements is expected.
Update to standard ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction	On June 29, 2022, the US Financial Accounting Standards Board ("FASB") issued ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction (hereinafter: "the Update"). The Update clarifies that contractual trade restriction on equity securities is an entity-specific restriction, and is not part of the accounting measurement unit of such securities, and therefore shall not be accounted for in fair value measurement. Furthermore, the Update adds disclosure requirements.	In conformity with directives of the Supervisor of Banks	No material impact is expected

Note 2 – Interest revenues and expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020
a. Interest revenues[1]			
From loans to the public	14,794	10,242	7,299
From loans to Governments	11	11	22
From deposits with the Bank of Israel and from cash	1,014	79	90
From deposits with banks	38	7	11
From securities loaned or purchased in resale agreements[2]	10	–	–
From bonds	328	218	106
Total interest revenues	**16,195**	**10,557**	**7,528**
B. Interest expenses			
On deposits from the public	4,168	1,716	1,316
On deposits from governments	3	4	4
On deposits from banks	9	4	7
On bonds and subordinated notes	1,744	1,142	380
On other liabilities	31	6	1
Total interest expenses	**5,955**	**2,872**	**1,708**
Total interest revenues, net	**10,240**	**7,685**	**5,820**
C. Details of net effect of hedging derivative instruments on interest revenues and expenses[3]	18	83	(39)
D. Details of interest revenues on accrual basis from bonds			
Held to maturity	57	41	22
Available for sale	253	167	78
For trading[4]	18	10	6
Total included under interest revenues	**328**	**218**	**106**

(1) Includes the effective element in the hedging ratios.

(2) Balance lower than NIS 0.5 million.

(3) Details of effect of hedging derivative instruments: on interest revenues, net.

(4) Net interest revenues from trading operations for 2022, as presented in Note 29, amounting to NIS 20 million (in 2021 and 2020: net interest revenues (expenses) amounting to NIS 20 million and NIS 8 million, respectively), include interest revenues from bonds held for trading, amounting to NIS 12 million (in 2021 and 2020: NIS 10 million and NIS 6 million, respectively), as stated above, linkage differentials amounting to NIS 13 million (in 2021 and 2020: NIS 4 million) as well as inter-segment revenues (expenses) amounting to NIS (5) million (in 2021 and 2020: NIS 6 million and NIS 2 million, respectively) with respect to internal transactions between the Assets and Liability Management segment and the trading segment.

Note 3 – Non-interest financing revenues

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020
a. Non-interest financing revenues (expenses) with respect to non-trading operations			
1. From activity in derivative instruments			
Net revenues (expenses) with respect to ALM derivative instruments(1)	3,450	(890)	(1,020)
Total from activity in derivative instruments	**3,450**	**(890)**	**(1,020)**
2. From investment in bonds			
Gain (loss) from sale of bonds available for sale	(55)	60	101
Provision for impairment with respect to bonds available for sale	(5)	–	–
Total from investment in bonds	**(60)**	**60**	**101**
3. Exchange rate differences, net	**(3,063)**	**1,124**	**920**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	41	51	13
Provision for impairment of shares not held for trading	(45)	(9)	–
Dividends from shares not held for trading	36	20	15
Unrealized gains (losses)(3)	(81)	77	23
Total from investment in shares	**(49)**	**139**	**51**
5. Net gains with respect to loans sold	**8**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**286**	**433**	**52**
b. Non-interest financing revenues (expenses) with respect to trading operations(2)			
Net revenues (expenses) with respect to other derivative instruments	365	(6)	137
Realized and un-realized gains (losses) from adjustment to fair value of bonds held for trading, net	98	(26)	32
Realized and un-realized gains (losses) from adjustment to fair value of shares held for trading, net	5	–	–
Total from trading operations(4)(5)	**468**	**(32)**	**169**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	103	23	(27)
Foreign currency exposure	365	(55)	196
Exposure to shares	–	–	–
Exposure to commodities and others	–	–	–
Total	**468**	**(32)**	**169**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(2) Includes exchange rate differentials resulting from trading operations.
(3) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(4) For interest revenues from investments in bonds held for trading, see Note 2.D.
(5) Financing revenues other than interest from trading operations for 2022, as presented in Note 29, amounting to NIS 345 million (in 2021 and 2020: NIS 90 million and NIS 121 million, respectively), include total revenues (expenses) from trading operations, as stated above, amounting to NIS 468 million (in 2021 and 2020: NIS (33) million and NIS 141 million, respectively), as well as exchange rate differentials (difference between exchange rate differentials with respect to ALM derivative operations and exchange rate differentials for balance sheet operations) amounting to NIS (123) million (in 2021 and 2020: NIS 123 million and NIS (20) million, respectively). as stated above.

Note 4 – Commissions

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020[4]
Account management[1]	440	412	356
Conversion differences	336	306	255
Activities involving securities	258	314	282
Credit cards	260	236	190
Commissions on distribution of financial products[2]	78	76	56
Handling credit	75	68	39
Foreign trade activity	55	53	40
Life insurance distribution commissions	112	109	100
Home insurance distribution commissions	15	13	15
Net revenues from credit portfolio service	27	31	38
Provident fund operations	24	27	22
Other commissions	61	44	41
Total commissions other than from financing business	**1,741**	**1,689**	**1,434**
Commissions from financing transactions[3]	311	258	237
Total commissions	**2,052**	**1,947**	**1,671**

(1) In Israeli and foreign currency.
(2) Includes distribution commissions from mutual funds and pension products.
(3) After effect of risk sale by acquiring an insurance policy for housing bonds, amounting to NIS 80 million (in 2021 and 2020: NIS 69 million and NIS 72 million, respectively).
(4) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 4A – Revenue from contracts with customers[(1)]

For the year ended December 31

Reported amounts (NIS in millions)

								2022
	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total
Account management[(2)]	182	–	2	205	21	30	–	440
Conversion differences	91	–	2	82	8	14	139	336
Activities involving securities	146	–	7	29	5	42	29	258
Credit cards	200	–	1	52	4	3	–	260
Commissions on distribution of financial products[(3)]	67	–	2	4	5	–	–	78
Handling credit	18	7	–	35	4	11	–	75
Foreign trade activity	–	–	–	22	9	24	–	55
Life insurance distribution commissions	–	112	–	–	–	–	–	112
Home insurance distribution commissions	–	15	–	–	–	–	–	15
Net revenues from credit portfolio service	7	13	–	–	–	7	–	27
Provident fund operations	–	–	–	–	–	–	24	24
Other commissions	14	–	1	7	–	16	23	61
Total commissions other than from financing business	**725**	**147**	**15**	**436**	**56**	**147**	**215**	**1,741**
Commissions from financing transactions[(4)]	21	3	1	42	30	214	–	311
Total commissions	**746**	**150**	**16**	**478**	**86**	**361**	**215**	**2,052**

(1) Classification of revenues to operating segments is based on the management approach.

(2) In Israeli and foreign currency.

(3) Includes distribution commissions from mutual funds and pension products.

(4) After effect of risk sale by acquiring an insurance policy for housing bonds, amounting to NIS 80 million.

Note 4A – Revenue from contracts with customers[1] – continued

For the year ended December 31

Reported amounts (NIS in millions)

								2021
	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total
Account management[2]	163	–	1	192	20	30	6	412
Conversion differences	82	–	4	77	9	12	122	306
Activities involving securities	194	–	13	31	9	38	29	314
Credit cards	176	–	1	52	4	3	–	236
Commissions on distribution of financial products[3]	65	–	3	6	1	–	1	76
Handling credit	16	4	–	25	5	16	2	68
Foreign trade activity	–	–	–	23	11	19	–	53
Life insurance distribution commissions	–	109	–	–	–	–	–	109
Home insurance distribution commissions	–	13	–	–	–	–	–	13
Net revenues from credit portfolio service	5	17	–	–	–	7	2	31
Provident fund operations	–	–	–	–	–	2	25	27
Other commissions	9	–	1	1	2	14	17	44
Total commissions other than from financing business	**710**	**143**	**23**	**407**	**61**	**141**	**204**	**1,689**
Commissions from financing transactions[4]	9	4	–	45	25	175	–	258
Total commissions	**719**	**147**	**23**	**452**	**86**	**316**	**204**	**1,947**

								2020[5]
	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total
Account management[2]	140	–	8	167	16	20	5	356
Conversion differences	54	–	13	56	8	11	113	255
Activities involving securities	149	–	24	20	6	41	42	282
Credit cards	148	–	1	36	3	2	–	190
Commissions on distribution of financial products[3]	46	3	2	3	–	1	1	56
Handling credit	6	6	–	15	2	9	1	39
Foreign trade activity	–	–	–	18	9	13	–	40
Life insurance distribution commissions	–	100	–	–	–	–	–	100
Home insurance distribution commissions	–	15	–	–	–	–	–	15
Net revenues from credit portfolio service	9	22	–	–	–	4	3	38
Provident fund operations	–	–	–	–	–	–	22	22
Other commissions	9	3	5	–	1	13	10	41
Total commissions other than from financing business	**561**	**149**	**53**	**315**	**45**	**114**	**197**	**1,434**
Commissions from financing transactions[4]	7	7	–	35	20	168	–	237
Total commissions	**568**	**156**	**53**	**350**	**65**	**282**	**197**	**1,671**

(1) Classification of revenues to operating segments is based on the management approach.
(2) In Israeli and foreign currency.
(3) Includes distribution commissions from mutual funds and pension products.
(4) After effect of risk sale by acquiring an insurance policy for housing bonds, amounting to NIS 69 million and NIS 72 million in 2021 and 2020, respectively.
(5) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 5 – Other revenues

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020[1]
Capital gain from sale of buildings and equipment	[2]371	18	41
Trustee fees	18	18	16
Revenues from security services	19	14	11
Rent revenues	6	5	4
Amortization of intangible assets, net	206	206	51
Other	2	26	[3]98
Total other revenues	**622**	**287**	**221**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Includes capital gain amounting to NIS 241 million with respect to sale of 100% interest in 24 rental properties around Israel, zoned for different uses, office and commercial use, and capital gain amounting to NIS 130 million with respect to sale of investment in Hof HaTchelet Development Company.

(3) Includes revenues of NIS 82 million with respect to indemnification from insurers.

Note 6 – Salaries and Related Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020[3]
Salaries (including bonuses)	3,052	2,549	1,812
Expense due to transactions accounted for as share-based payment transactions settled using equity instruments[1]	45	41	23
Other associated expenses, including study fund and paid leave	109	105	106
Long-term benefits	4	21	14
National Insurance and VAT on salaries	511	507	427
Expenses with respect to pension (including severance pay and provident funds)			
Defined benefit – cost of service[2]	76	78	75
Defined contribution	190	193	158
Other post-employment benefits and post-retirement benefits, other than pension payment[2]	10	11	8
Expenses with respect to other employees' benefits	32	31	21
Total salaries and related expenses	**4,029**	**3,536**	**2,644**
Of which: Payroll and associated expenses overseas	**53**	**46**	**50**

(1) See Note 23 "Share-based Payment Transactions".

(2) See Note 22 "Employees' Rights".

(3) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 7 – Other Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2022	2021	2020[1]
Expenses with respect to pension (including severance pay and provident funds), defined benefit (excluding cost of service)	113	105	79
Marketing and advertising	96	87	68
Communications	53	51	43
Computer	329	318	219
Office expenses	47	43	46
Insurance	57	36	25
Professional services	182	133	124
Board members' fees	15	13	10
Training and continuing education	15	8	7
Commissions	53	52	40
Cars and travel	35	31	31
Other	137	153	72
Total other expenses	**1,132**	**1,030**	**764**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

Note 8 – Provision for Taxes on Profit

For the year ended December 31

Reported amounts (NIS in millions)

A. Composition

	2022	2021	2020[1]
Current taxes –			
For the current year	2,754	1,650	1,087
For prior years	10	2	4
Total current taxes	**2,764**	**1,652**	**1,091**
Changes in deferred taxes –			
For the current year	(406)	78	(184)
For prior years	(2)	–	(4)
Total deferred taxes	**(408)**	**78**	**(188)**
Total provision for taxes on income	**2,356**	**1,730**	**903**
Includes provision for income tax overseas	**123**	**47**	**35**

B. The table excludes the tax effect with respect to certain items recognized directly in equity in each period. The tax effect of all items recognized directly in equity amounted to a decrease by NIS 183 million in 2022, compared to an increase by NIS 16 million in 2021 and a decrease by NIS 6 million in 2020.

C. Below is a reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2022	2021	2020[1]
Pre-tax profit	**6,963**	**5,030**	**2,604**
Statutory tax rate applicable to a bank in Israel	**34.19%**	**34.19%**	**34.19%**
Tax amount based on statutory tax rate	2,381	1,720	890
Tax (tax saving) from:			
Income of subsidiaries in Israel[2]	(21)	(3)	(3)
Income of subsidiaries overseas	1	2	2
Exempt and reduced tax rate income	(5)	(1)	(1)
Adjustment differences on depreciation, amortization and capital gains	(1)	2	–
Other non-deductible expenses	70	73	25
Temporary differences and gain for which no deferred taxes have been recorded	5	12	5
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	4	4	2
Others	3	2	3
Amortization of deferred credit balance[3]	(81)	(81)	(20)
Total provision for taxes on income	**2,356**	**1,730**	**903**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.

(2) Includes revenues of auxiliary corporations.

(3) Revenue recognition with respect to deferred credit balance from acquisition of Union Bank, as from September 30, 2020.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes

	Balances as of December 31					
	2021	Changes charged to profit and loss	Changes charged to Other Compre-hensive Income	Changes charged to equity[5]	2022	Average tax rate in %
Deferred tax assets[1]:						
Provision for credit losses	724	84	–	191	999	34.19
Provision for vacation pay, long-service bonuses and employees' rights	217	222	–	–	439	33.50
Excess liabilities with respect to employees' benefits over plan assets	723	67	(177)	–	613	34.14
Carry-forward tax loss[2]	6	(6)	–	–	–	–
Other – from monetary items	–	–	–	–	–	–
Other – from non-monetary items	8	22	–	–	30	34.19
Deferred tax balance, gross	**1,678**	**389**	**(177)**	**191**	**2,081**	**34.03**
Provision for tax asset	**–**	**–**	**–**	**–**	**–**	**–**
Tax asset balance net of provision for deferred taxes	**1,678**	**389**	**(177)**	**191**	**2,081**	**34.03**
Deferred tax liabilities with respect to[1]:						
Fixed assets and leases	27	1	–	–	28	23.00
Securities[3]	8	(25)	–	–	(17)	34.19
Investments in investee companies	100	65	–	–	165	11.98
Other – from monetary items[4]	(6)	–	6	–	–	–
Other – from non-monetary items, net	7	(7)	–	–	–	–
Tax reserve with respect to PPA adjustments	67	(53)	–	–	14	34.19
Deferred tax liability balance, gross	**203**	**(19)**	**6**	**–**	**190**	**13.25**
Deferred tax balance, net	**1,475**	**408**	**(183)**	**191**	**1,891**	

(1) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Carry-forward tax loss with respect to subsidiaries in Israel.

(3) Deferred tax asset with respect to investment in shares, amounting to NIS 17 million (in the previous year: deferred tax liability amounting to NIS 8 million). Changes in this item with respect to a loss amounting to NIS 254 million due to adjustment of fair value of securities available for sale were charged to a separate item under shareholder's equity (in the previous year: gain amounting to NIS 9 million).

(4) Changes in this item amounting to NIS 6 million due to net gain from cash flow hedges were charged to a separate item under shareholder's equity (in the previous year: gain amounting to NIS 11 million).

(5) Adjustment of opening balance of shareholders' equity, due to CECL directives coming into effect (see Note 1).

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes – Continued

	Balances as of December 31					
	2020[1]	Changes charged to profit and loss	Changes charged to Other Compre-hensive Income	Changes charged to equity	2021	Average tax rate in %
Deferred tax assets[2]:						
Provision for credit losses	921	(197)	–	–	724	34.19
Provision for vacation pay, long-service bonuses and employees' rights	130	87	–	–	217	33.50
Excess liabilities with respect to employees' benefits over plan assets	682	36	5	–	723	34.14
Carry-forward tax loss[3]	15	(9)	–	–	6	34.19
Other – from monetary items	2	(2)	–	–	–	23.00
Other – from non-monetary items	9	(1)	–	–	8	34.19
Deferred tax balance, gross	**1,759**	**(86)**	**5**	**–**	**1,678**	**34.08**
Provision for tax asset	–	–	–	–	–	
Tax asset balance net of provision for deferred taxes	**1,759**	**(86)**	**5**	**–**	**1,678**	**34.08**
Deferred tax liabilities with respect to[2]:						
Fixed assets and leases	24	3	–	–	27	23.00
Securities[4]	–	8	–	–	8	34.19
Investments in investee companies	84	16	–	–	100	11.98
Other – from monetary items[5]	5	–	(11)	–	(6)	34.19
Other – from non-monetary items, net	10	(3)	–	–	7	34.19
Tax reserve with respect to PPA adjustments	99	(32)	–	–	67	34.19
Deferred tax liability balance, gross	**222**	**(8)**	**(11)**	**–**	**203**	**20.51**
Deferred tax balance, net	**1,537**	**(78)**	**16**	**–**	**1,475**	

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2020 includes the financial results of Union Bank for the fourth quarter only.
(2) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.
(3) Carry-forward tax loss with respect to subsidiary in Israel and overseas.
(4) Deferred tax liability with respect to investment in shares, amounting to NIS 17 million. Changes in this item with respect to gain amounting to NIS 9 million due to adjustment of fair value of securities available for sale were charged to a separate item under shareholder's equity (in the previous year: gain amounting to NIS 23 million).
(5) Changes in this item amounting to NIS 11 million due to net gain from cash flow hedges were charged to a separate item under shareholder's equity (in the previous year: loss amounting to NIS 1 million).

E. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017. Total liability as of December 31, 2022: NIS 165 million (as of December 31, 2021: NIS 100 million).

F. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (NIS in millions)

G. Legislation changes with regard to tax

1. Corporate tax

On December 22, 2016 the Knesset plenum approved the Economic Streamlining Law (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

Deferred tax balances were calculated based on new tax rates stipulated in the Economic Streamlining Law (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years) using the tax rate expected to apply upon the reversal date.

2. VAT, profit tax and payroll tax

On October 12, 2015, the Knesset plenum enacted the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), -2015. Stipulating that profit tax and payroll tax rates applicable to financial Institutions would decrease from 18% to 17% as from October 1, 2015. The aforementioned change resulted in the statutory tax rate applicable to financial institutions decreasing to 35.02% in 2017 and to 34.19% as from 2018.

Following these changes, the statutory tax rates applicable to banking corporations were revised as follows:

Tax year	Profit tax rate	Income tax rate	Total tax rate
2018 and later	17%	23%	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank supplements the tax indebtedness based on the tax rate in Israel.

H. The Bank has finalized tax assessments through 2016. For 2017, a tax assessment other than by agreement was issued, and the Bank filed its reservations there upon. Tax amounts in this tax assessment are not material for the financial statements.

The Bank received agreed withholding deduction tax assessments through the 2020 tax year.

Bank Yahav has finalized tax assessments through 2019.

The Bank has finalized tax assessments through 2013. With respect to 2014-2017, the Bank has signed a tax assessment agreement with the Tax Authority, except for one issue that is not
material for the financial statements.

I. Further to closing the acquisition of 100% of the issued and paid-up share capital and voting rights in Union Bank on September 30, 2020, and further to the Bank and Union Bank signing an agreement on November 29, 2020 regarding the merger of Union Bank with and into the Bank, on May 10, 2021 the Tax Authority issued approval, in conjunction with a tax ruling, that the merger of Union Bank with and into the Bank is tax exempt pursuant to provisions of Part E.2 of the Ordinance. On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank.

Note 9 – Earnings per Ordinary Share

	For the year ended December 31		
	Reported amounts (NIS in millions)		
	2022	2021	2020
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	**4,472**	**3,188**	**1,610**
Weighted average number of shares (in thousands of shares)[(1)(2)]			
Weighted average number of ordinary shares used to calculate basic earnings	255,953	255,679	240,462
Weighted average number of ordinary shares used to calculate diluted earnings	257,319	258,056	240,797
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	**17.47**	**12.47**	**6.70**
Total diluted earnings attributable to holders of ordinary Bank shares	**17.38**	**12.35**	**6.69**

(1) Share of NIS 0.1 par value.

(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. For more information see Note 23 to the financial statements.

Note 10 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale bonds at fair value	Translation adjustments[1]	Net gains (losses) from cash flow hedges	Adjustments with respect to employees' benefits	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributable to shareholders of the Bank
Balance as of January 1, 2020	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**
Net change in the period	46	–	2	[2]9	57	1	56
Balance as of December 31, 2020	**82**	**(1)**	**10**	**(399)**	**(308)**	**(32)**	**(276)**
Net change in the period	16	(1)	(22)	[2](13)	(20)	7	(27)
Balance as of December 31, 2021	**98**	**(2)**	**(12)**	**(412)**	**(328)**	**(25)**	**(303)**
Net change in the period	(556)	–	12	[2]340	(204)	7	(211)
Balance as of December 31, 2022	**(458)**	**(2)**	**–**	**(72)**	**(532)**	**(18)**	**(514)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 10 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31								
	2022			2021			2020		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale bonds at fair value									
Net unrealized gains (losses) from adjustments to fair value	(864)	272	(592)	85	(30)	55	170	(58)	112
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[(1)]	55	(19)	36	(60)	21	(39)	(101)	35	(66)
Net change in the period	**(809)**	**253**	**(556)**	**25**	**(9)**	**16**	**69**	**(23)**	**46**
Translation adjustments									
Adjustments from translation of financial statements[(2)]	–	–	–	(1)	–	(1)	–	–	–
Net change in the period	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**–**
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	18	(6)	12	(33)	11	(22)	3	(1)	2
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss	–	–	–	–	–	–	–	–	–
Net change in the period	**18**	**(6)**	**12**	**(33)**	**11**	**(22)**	**3**	**(1)**	**2**
Employees' benefits									
Net actuarial gain (loss) for the period	455	(156)	[(4)]299	(82)	27	[(4)](55)	(33)	11	[(4)](22)
Net gain (loss) reclassified to the statement of profit and loss[(3)]	62	(21)	41	64	(22)	42	47	(16)	31
Net change in the period	**517**	**(177)**	**340**	**(18)**	**5**	**(13)**	**14**	**(5)**	**9**
Total net change in the period	**(274)**	**70**	**(204)**	**(27)**	**7**	**(20)**	**86**	**(29)**	**57**
Total net change in the period attributable to non-controlling interests	**11**	**(4)**	**7**	**11**	**(4)**	**7**	**2**	**(1)**	**1**
Total net change in the period attributable to shareholders of the Bank	**(285)**	**74**	**(211)**	**(38)**	**11**	**(27)**	**84**	**(28)**	**56**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(3) Pre-tax amounts are included under "Salaries and related expenses" in the statement of profit and loss. For more information see Note 22.C.2.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 11 – Cash and Deposits with Banks

As of December 31

Reported amounts (NIS in millions)

	2022	2021
Cash and deposits with central banks	90,738	93,672
Deposits with commercial banks	2,935	1,595
Total cash and deposits with banks	**93,673**	**95,267**
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	92,865	94,661

For more information about liens see Note 27 below.

Note 12 – Securities

As of December 31, 2022

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	3,034	3,034	–	–	(129)	2,905
Of financial institutions in Israel	390	390	–	–	(19)	371
Of others in Israel	90	90	–	–	(4)	86
Total bonds held to maturity	**3,514**	**3,514**	**–**	**–**	**(152)**	**3,362**

	Carrying amount	Amortized cost	Balance of provision for credit losses	Cumulative other comprehensive income[4]		Fair value[1]
				Gains	Losses	
(2) Bonds available for sale						
of Government of Israel	4,949	5,470	–	41	(562)	4,949
of foreign governments[3]	1,330	1,367	–	–	(37)	1,330
Of financial institutions in Israel	383	422	–	3	(42)	383
Of foreign financial institutions	262	275	–	–	(13)	262
Asset-backed (ABS)	55	57	–	–	(2)	55
Of others in Israel	838	880	–	17	(59)	838
Of others overseas	217	223	–	5	(11)	217
Total bonds available for sale	**8,034**	**8,694**	**–**	**66**	**(726)**	**8,034**

Note 12 – Securities – Continued

As of December 31, 2022

Reported amounts (NIS in millions)

	Carrying amount	Cost	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(3) Investment in shares not held for trading	**632**	**584**	**–**	**62**	**(14)**	**632**
Of which: Shares for which no fair value is available[6]	389	380	–	9	–	389
Total securities not held for trading	**12,180**	**12,792**	**–**	**128**	**(892)**	**12,028**

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(4) Bonds held for trading						
of Government of Israel	2,749	2,804	–	–	(55)	2,749
Of foreign governments	127	127	–	1	(1)	127
Of financial institutions in Israel	1	1	–	–	–	1
Of others in Israel	25	25	–	1	(1)	25
Of others overseas	42	43	–	–	(1)	42
Total bonds held for trading	**2,944**	**3,000**	**–**	**2**	**(58)**	**2,944**
Shares and other securities	20	18	–	3	(1)	20
Total securities held for trading	**2,964**	**3,018**	**–**	**5**	**(59)**	**2,964**
Total securities[2]	**15,144**	**15,810**	**–**	**133**	**(951)**	**14,992**

(5) Additional information about bonds	
Recorded debt balance of	
Impaired bonds not accruing interest revenues	35
	35

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 455 million and securities provided as collateral to lenders, amounting to NIS 203 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:
– For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. For more information of investments in shares – see Note 3.A.4.
– The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

As of December 31, 2021

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	2,634	2,634	–	62	(5)	2,691
Of financial institutions in Israel	271	271	–	4	–	275
Of others in Israel	29	29	–	–	–	29
Total bonds held to maturity	**2,934**	**2,934**	**–**	**66**	**(5)**	**2,995**

	Carrying amount	Amortized cost	Balance of provision for credit losses	Cumulative other comprehensive income[4]		Fair value[1]
				Gains	Losses	
(2) Bonds available for sale						
of Government of Israel	7,314	7,244	–	110	(40)	7,314
of foreign governments[3]	2,035	2,035	–	1	(1)	2,035
Of financial institutions in Israel	326	323	–	3	–	326
Of foreign financial institutions	177	176	–	2	(1)	177
Asset-backed (ABS)	6	6	–	–	–	6
Of others in Israel	712	659	–	55	(2)	712
Of others overseas	253	232	–	21	–	253
Total bonds available for sale	**10,823**	**10,675**	**–**	**192**	**(44)**	**10,823**

Note 12 – Securities – Continued

As of December 31, 2021

Reported amounts (NIS in millions)

	Carrying amount	Cost	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(3) Investment in shares not held for trading	**706**	**574**	**–**	**134**	**(2)**	**706**
Of which: Shares for which no fair value is available[6]	414	403	–	11	–	414
Total securities not held for trading	**14,463**	**14,183**	**–**	**392**	**(51)**	**14,524**

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] Gains	Losses	Fair value[1]
(4) Bonds held for trading						
of Government of Israel	473	465	–	9	(1)	473
Of financial institutions in Israel	4	4	–	–	–	4
Of others in Israel	24	23	–	2	(1)	24
Of others overseas	49	47	–	2	–	49
Total bonds held for trading	**550**	**539**	**–**	**13**	**(2)**	**550**
Shares and other securities	20	21	–	4	(5)	20
Total securities held for trading	**570**	**560**	**–**	**17**	**(7)**	**570**
Total securities[2]	**15,033**	**14,743**	**–**	**409**	**(58)**	**15,094**

(5) Additional information about bonds

Recorded debt balance of	
Impaired bonds not accruing interest revenues	45
	45

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 1,001 million and securities provided as collateral to lenders, amounting to NIS 146 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:
– For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. For more information of investments in shares – see Note 3.A.4.
– The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(6) Fair value and unrealized losses, by time period and impairment rate, of bonds available for sale, which include unrealized loss:

	Less than 12 months					12 months or more				
		Unrealized losses					Unrealized losses			
	Fair value[1]	0%-20%	20%-40%	Over 40%	Total	Fair value[1]	0%-20%	20%-40%	Over 40%	Total
										As of December 31, 2022
Bonds available for sale										
of Government of Israel	1,271	79	28	–	107	2,891	331	100	24	455
Of foreign governments(2)	1,207	32	–	–	32	47	5	–	–	5
Of financial institutions in Israel	183	19	–	–	19	191	23	–	–	23
Of foreign financial institutions	208	6	–	–	6	38	6	1	–	7
Asset-backed (ABS)	55	2	–	–	2	–	–	–	–	–
Of others in Israel	606	47	–	–	47	60	9	3	–	12
Of others overseas	106	1	4	–	5	40	2	4	–	6
Total bonds available for sale	**3,636**	**186**	**32**	**–**	**218**	**3,267**	**376**	**108**	**24**	**508**
										As of December 31, 2021
Bonds available for sale										
of Government of Israel	2,029	32	–	–	32	602	8	–	–	8
Of foreign governments(2)	1,834	1	–	–	1	–	–	–	–	–
Of financial institutions in Israel	25	(3)–	–	–	–	–	–	–	–	–
Of foreign financial institutions	38	1	–	–	1	–	–	–	–	–
Asset-backed (ABS)	1	(3)–	–	–	–	–	–	–	–	–
Of others in Israel	75	2	–	–	2	–	–	–	–	–
Of others overseas	5	(3)–	–	–	–	–	–	–	–	–
Total bonds available for sale	**4,007**	**36**	**–**	**–**	**36**	**602**	**8**	**–**	**–**	**8**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) US government bonds.
(3) Balance lower than NIS 0.5 million.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value
					As of December 31, 2022
Asset-backed bonds	55	57	–	(2)	55
Total asset-backed bonds available for sale	**55**	**57**	**–**	**(2)**	**55**
					As of December 31, 2021
Asset-backed bonds	6	6	–	–	6
Total asset-backed bonds available for sale	**6**	**6**	**–**	**–**	**6**

(8) Movement in balance of provision for credit losses of bonds available for sale

	Governments and financial institutions	Asset-backed or mortgage-backed	Of others	Total
Balance of provision for credit losses as of December 31, 2021	**–**	**–**	**–**	**–**
Additions with respect to credit losses on securities for which no credit losses were previously recognized	–	–	7	7
Deductions with respect to securities sold during the period	–	–	(2)	(2)
Deductions with respect to intended sale	–	–	–	–
Net increase (decrease) in provision for credit losses with respect to securities for which credit losses were previously recognized	–	–	5	5
Accounting write-offs charged against the provision	–	–	(5)	(5)
Collection of amounts subject to accounting write-offs in previous periods	–	–	–	–
Net accounting write-offs	–	–	(5)	(5)
Other	–	–	–	–
Balance of provision for credit losses as of December 31, 2022	**–**	**–**	**–**	**–**

Note 13 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[(1)], loans to the public and balance of provision for credit losses

	December 31, 2022					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance[(1)]						
reviewed on individual basis	73,817	–	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	–	236,132
Total debts	**86,977**	**[(2)]196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Of which:						
Non-accruing debts	1,193	1,329	55	2,577	–	2,577
Debts in arrears 90 days or longer	69	–	44	113	–	113
Other problematic debts	1,136	–	123	1,259	–	1,259
Total problematic debts	**2,398**	**1,329**	**222**	**3,949**	**–**	**3,949**
Balance of provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	1,106	–	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	–	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**
Of which: With respect to non-accruing debts	**199**	**67**	**42**	**308**	**1**	**309**
Of which: With respect to other problematic debts	**257**	**–**	**60**	**317**	**–**	**317**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,566 million.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses – continued

	December 31, 2021 [3]					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance:						
reviewed on individual basis	63,761	36	564	64,361	23,888	88,249
reviewed on group basis	9,162	175,722	24,286	209,170	–	209,170
Total debts	**72,923**	**[2]175,758**	**24,850**	**273,531**	**23,888**	**297,419**
Of which:						
Non-accruing debts	1,193	–	56	1,249	1	1,250
Debts in arrears 90 days or longer	26	1,300	26	1,352	–	1,352
Other problematic debts	708	–	111	819	–	819
Total problematic debts	**1,927**	**1,300**	**193**	**3,420**	**1**	**3,421**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	959	1	21	981	1	982
reviewed on group basis	102	803	217	1,122	–	1,122
Total provision for credit losses	**1,061**	**804**	**238**	**2,103**	**1**	**2,104**
Of which: With respect to non-accruing debts	**302**	**–**	**17**	**319**	**1**	**320**
Of which: With respect to other problematic debts	**114**	**1**	**19**	**134**	**–**	**134**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 11,145 million.
(3) Re-classified in conformity with new disclosure format.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	For the year ended December 31, 2022					
	Provision for credit losses					
	Loans to the public				Banks, governments and bonds	
	Commercial	Housing	Individual – other	Total		Total
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses(1)	275	(32)	149	392	–	392
Expenses with respect to credit losses	336	99	97	532	–	532
Accounting write-offs(1)	(330)	–	(189)	(519)	–	(519)
Collection of debts written off for accounting purposes in previous years(1)	128	–	122	250	–	250
Net accounting write-offs	(202)	–	(67)	(269)	–	(269)
Other(2)	25	31	79	135	–	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**
Of which: With respect to off balance sheet credit instruments	**199**	**5**	**16**	**220**	**–**	**220**
	For the year ended December 31, 2021					
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs(1)	(241)	(10)	(143)	(394)	–	(394)
Collection of debts written off for accounting purposes in previous years(1)	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other(2)	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**–**	**16**	**211**	**–**	**211**
	For the year ended December 31, 2020					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs(1)	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years(1)	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Acquisition of Union Bank	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

(2) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 14 – Loans to Governments

As of December 31

Reported amounts (NIS in millions)

	2022	2021
Loans to Government of Israel	19	74
Loans to foreign governments	299	403
Total loans to governments	**318**	**477**

Note 15 – Investments in and Details of Investee companies

As of December 31

Reported amounts (NIS in millions)

A. Item composition:

	2022	2021
	Associated companies	**Associated companies**
Investment in shares stated on equity basis	92	34
Subordinated notes and capital notes	35	35
Total investments	**127**	**69**
Of which:		
Losses accrued since acquisition date	(21)	(26)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	(2)	(2)

B. Bank's share in net profits of associated companies, net:

	2022	2021	2020
Bank's share in net profits (losses) of associated companies(1)(2)	5	(10)	1

(1) There are no losses or reversal of losses from impairment of investee companies.
(2) The tax effect on earnings of associated companies is less than NIS 1 million.

Note 15 – Investments in and Details of Investee companies – continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31			
		2022	2021	2022	2021
C. Details of principal investee companies[1]:					
1) Subsidiaries					
Union Bank Le-Israel Ltd.[2]	The Bank		100%		100%
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
Mizrahi Tefahot INVEST Ltd.[2]	Real investments	100%	100%	100%	100%
Mizrahi Tefahot Leasing Ltd.[2]	Leasing	100%	100%	100%	100%

	December 31, 2022		
	Cost	Accumulated amortization	Amortized balance
D. Balance of goodwill with respect to investees:[3][4]	140	53	87

(1) The above list does not include wholly owned and controlled companies constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(2) On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Ad from this date, Mizrahi Tefahot INVEST (formerly: Igud Investments and Development (A.S.I) Ltd.) and Mizrahi Tefahot Leasing Ltd. (formerly: Igud Leasing Ltd.) are subsidiaries of the Bank. All other Union Bank subsidiaries were merged into subsidiaries of the Bank.

(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under "Intangible Assets and Goodwill".

(4) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2022 amounted to NIS 14 million (identical to amortized balance as of December 31, 2021 and as of December 31, 2020), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2022 amounted to NIS 4 million (identical to amortized balance as of December 31, 2021 and as of December 31, 2020).

(5) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

(6) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.

(7) Including due to devaluation of the NIS against exchange rates of foreign currencies, amounting to NIS 29 million (in 2021: loss of NIS 12 million).

	Investment in shares at equity value[5]		Goodwill balance[3]		Other capital investments		Contribution to net profit (loss) attributable to shareholders of the banking corporation		Dividends recorded		Other items accrued under shareholders equity[6]	
	As of December 31									For the year ended December 31		
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	–	3,071	–	–	–	500	280	211	–	–	–	–
	1,151	1,028	69	69	–	–	139	102	(15)	(15)	7	8
	1,412	1,265	–	–	66	–	82	70	–	–	–	–
	225	225	–	–	–	–	[7]–	[7]–	–	–	–	–
	27	28	–	–	–	–	(1)	–	–	–	–	–
	98	95	–	–	–	–	3	2	–	–	–	–
	179	171	–	–	–	–	8	18	–	–	–	–
	160	137	–	–	–	–	23	8	–	–	–	–
	893	835	–	–	–	–	54	34	–	–	34	25

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements)[(1)]	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
Cost of assets as of December 31, 2020	**1,679**	**1,744**	**3,050**	**6,473**
Additions	48	48	253	349
Disposals	(50)	(4)	–	(54)
Cost of assets as of December 31, 2021	**1,677**	**1,788**	**3,303**	**6,768**
Additions	98	45	249	392
Disposals	[(2)](514)	(227)	(41)	(782)
Cost of assets as of December 31, 2022	**1,261**	**1,606**	**3,511**	**6,378**
Depreciation and impairment losses				
Accumulated depreciation as of December 31, 2020	**804**	**1,469**	**2,457**	**4,730**
Depreciation	47	59	233	339
Impairment	–	–	–	–
Disposals	(31)	(4)	–	(35)
Accumulated depreciation as of December 31, 2021	**820**	**1,524**	**2,690**	**5,034**
Depreciation	42	40	246	328
Impairment	–	–	4	4
Disposals	(269)	(214)	(8)	(491)
Accumulated depreciation as of December 31, 2022	**593**	**1,350**	**2,932**	**4,875**
Book value[(3)]:				
As of December 31, 2020	**875**	**275**	**593**	**1,743**
As of December 31, 2021	**857**	**264**	**613**	**1,734**
As of December 31, 2022	**668**	**256**	**579**	**1,503**
Weighted average depreciation rate as of December 31, 2021	4.1%	13.9%	23.8%	
Weighted average depreciation rate as of December 31, 2022	4.0%	14.6%	23.3%	

B. Additional information

Depreciation rates are as follows:

Buildings	2%-4%
Leasehold improvements	7%
Office equipment and furniture	6%-25%
Vehicles	15%-20%
Computers, software usage rights and costs	20%-33%

(1) Installations, rights in leasehold and payments on account of some of the buildings and leasing rights, amounting to NIS 70 million (as of December 31, 2021: NIS 132 million) have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries.
(2) For more information about sale of the entire interest in 24 rental properties across Israel zoned for different uses, see Note 5.
(3) Includes amortized capitalized cost of independently developed computer software as of December 31, 2022 amounting to NIS 578 million (December 31, 2021: NIS 538 million; December 31, 2020: NIS 444 million). For more information about policy on software cost capitalization, see Note 1.D.9.

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated	
	December 31	
	2022	2021
Not designated for sale	18	26
Includes – leased to others	10	26
Designated for sale[(1)]	–	–

(1) Moreover, as of December 31, 2022 there were no assets used by the Group and designated for sale. (As of December 31, 2021, assets used by the Group and designated for sale amounted to NIS 200 million).

D. As of December 31, 2022, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 221 million (December 31, 2022 – NIS 14 million).

E. In 2017, the Bank acquired land in order to concentrate, in as much as possible, the Bank's headquarters units in a single central site, in Lod. The acquisition cost amounted to NIS 27 million. For information about this commitment, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.

F. Information with respect to leases

Expenses with respect to leases:

	2022	2021	2020
Total expenses with respect to leases	**146**	**138**	**118**

Additional information about leases:

	2022	2021	2020
Capital gain from sale and lease-back transactions, net	233	16	40
Cash flow with respect to current operations with respect to operational leases	146	140	104
Right-to-use assets recognized with respect to new operational leases	296	173	24
Weighted average remaining term (in years)	4.9	4.5	4.2
Weighted average discount rate	1.4	1.3	1.2

Non-capitalized cash flows and liabilities with respect to operational leases, by term to maturity:

	As of December 31, 2022		As of December 31, 2021	
	Non-capitalized cash flows	Liability with respect to lease	Non-capitalized cash flows	Liability with respect to lease
Up to 1 year	128	127	107	107
Over 1 year to 2 years	102	101	92	91
Over 2 years to 3 years	86	84	80	78
Over 3 years to 4 years	68	66	65	63
Over 4 years to 5 years	61	57	47	44
Over 5 years	452	380	273	234
Total	**896**	**814**	**664**	**617**

Note 17 – Other Assets

Reported amounts (NIS in millions)

	December 31	
	2022	**2021**
Deferred taxes receivable, net[(1)]	2,081	1,678
Excess of advance income tax payments over current provisions	87	114
Revenues receivable	118	130
Issuance expenses for bonds and subordinated notes[(2)]	121	118
Right-to-use asset with respect to operational lease[(3)]	780	614
Other receivables and debit balances	586	417
Total other assets	**3,773**	**3,071**

(1) For further details, see Note 8.
(2) For more information about bonds and subordinated notes see Note 20.
(3) For more information about right-to-use asset with respect to operational lease, see Note 16.

Note 18 – Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

a. Deposit types by location solicited and depositor type

	2022	2021
In Israel		
On-call		
Non interest-bearing	88,270	103,889
Interest-bearing	43,428	47,151
Total on-call	**131,698**	**151,040**
Term deposits	204,829	152,698
Total deposits in Israel(1)	**336,527**	**303,738**
Outside of Israel		
On-call		
Non interest-bearing	409	492
Interest-bearing	66	1
Total on-call	**475**	**493**
Term deposits	7,512	3,693
Total deposits overseas	**7,987**	**4,186**
Total deposits from the public	**344,514**	**307,924**

(1) Includes:

Deposits from individuals	**151,578**	**139,715**
Deposits from institutional investors	**75,938**	**61,365**
Deposits from corporations and others	**109,011**	**102,658**

b. Deposits from the public by size

	2022	2021
Maximum deposit (NIS in millions)		
Up to 1	99,561	95,170
Over 1 to 10	86,771	78,746
Over 10 to 100	46,517	44,740
Over 100 to 500	35,348	36,591
Above 500	76,317	52,677
Total	**344,514**	**307,924**

Note 19 – Deposits from Banks

As of December 31

Reported amounts (NIS in millions)

	December 31	
	2022	**2021**
In Israel		
Commercial banks:		
On-call deposits	310	1,085
Term deposits	1,224	707
Acceptances	230	299
Central banks:		
Term deposits	4,877	4,877
Outside of Israel		
Commercial banks:		
On-call deposits	201	24
Term deposits	152	–
Total deposits from banks	**6,994**	**6,992**

Note 20 – Bonds and subordinated notes

As of December 31

Reported amounts (NIS in millions)

	Average maturity in years [1]	Internal rate of return[2]	December 31	
			2022	2021
Bonds and subordinated notes not convertible into shares:				
In Israeli currency – non-linked				
Bonds	2.85	2.50%	5,296	6,741
Subordinated notes[3]	1.10	4.85%	92	192
In Israeli currency – CPI-linked				
Bonds	3.86	0.87%	21,924	22,391
Subordinated notes[3]	6.57	3.11%	3,364	3,582
Bonds and subordinated notes convertible into shares:				
In Israeli currency – CPI-linked				
Subordinated notes[3]	1.04	3.59%	484	3,260
In foreign currency – USD				
Subordinated notes[3]	3.43	3.10%	2,127	1,880
Total bonds and subordinated notes	**3.90**	**1.58%**	**33,287**	**38,046**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) Upon liquidation, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. Further to approval by the Supervisor of Banks, the Bank conducted an early redemption of subordinated note (Series A) in early January 2022, for NIS 2.1 billion. The subordinated note issued by the Bank did not qualify as supervisory capital pursuant to Basel III directives and was gradually written down.

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, bonds and contingent convertible subordinated notes with a par value of NIS 23,029 million and non-linked bonds with a par value of NIS 5,235 million, as of December 31, 2022, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
On April 11, 2022, Tefahot Issuance issued two new bond series, Series 63 and 64, NIS-denominated and CPI-linked, amounting to NIS 1.2 billion each, for total consideration amounting to NIS 2.4 billion.
On December 6, 2022, Tefahot Issuance issued two bond series, Series 63 and Series 66, NIS and CPI-linked, and one series of contingent convertible subordinated notes (Series 65). Bonds (Series 63) were issued by way of expansion of a traded series, with par value of NIS 0.7 billion. Bonds (Series 66), a new series, were issued with par value of NIS 1.2 billion. contingent convertible Subordinated notes (Series 65), a new series, were issued with par value of NIS 0.7 billion. The gross consideration received by the company in public offering of bonds (Series 63 and Series 66) and contingent convertible subordinated notes (Series 65) amounted to NIS 2.6 billion.
On February 20, 2023, after the balance sheet date, Tefahot Issuance issued commercial paper (Series 1) for about NIS 1.1 billion.

On March 1, 2022, principal of bonds (Series 57) was partially redeemed, for NIS 0.2 billion.
On June 7, 2022, principal of bonds (Series 41) was fully redeemed, for NIS 3.3 billion.
On September 15, 2022, principal of bonds (Series 58) was fully redeemed, for NIS 0.4 billion.
On September 25, 2022, principal of bonds (Series 44) was fully redeemed, for NIS 3.0 billion.
On September 11, 2022, the company conducted full early redemption of contingent convertible subordinated notes (Series 56) for NIS 0.3 billion.

On December 18, 2022, contingent convertible subordinated notes (Series 47) were fully redeemed early by the company, for NIS 0.75 billion.

Note 20 – Bonds and subordinated notes – continued

As of December 31

Reported amounts (NIS in millions)

C. The Bank has contingent convertible subordinated notes (CoCo) with loss-absorption provisions through principal write-off. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions. The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision. In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part. Rating agency Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

On April 7, 2021, the Bank issued to institutional investors by international private placement, underwritten by international financial institutions, contingent subordinated notes (CoCo – Contingent Convertibles) amounting to USD 600 million. The subordinated notes qualify as Tier II capital.
In August 2022, Bank Yahav made a full early redemption, after obtaining approval from the Bank of Israel, subordinated notes amounting to NIS 129 million.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31	
	2022	2021
Provision for deferred taxes, net[1]	190	203
Excess current reserves over advance income tax payments	192	–
Excess of provision over funding severance pay, retirement and pension[2]	2,006	2,382
Unearned revenues	199	241
Deferred credit balance from acquisition of Union Bank	649	1,027
Accrued expenses	1,535	832
Provision for vacations and long- service bonus	324	215
Guarantees payable	166	147
Provision for doubtful debts for off-balance sheet items	220	211
Payables for credit card operations	2,825	2,894
Market value of securities sold short	1,145	2,057
Liabilities with respect to operational leases[3]	783	617
Other payables and credit balances	3,134	2,920
Total other liabilities	**13,368**	**13,746**

(1) For further details, see Note 8.
(2) For more information see Note 22 "Employee rights".
(3) For more information about liability with respect to operational leases, see Note 16.

Note 22 – Employees' Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman.

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Law (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Law") and following revisions to Proper Conduct of Banking Business Directive 301A on remuneration ("the new remuneration policy").

   For complete information about terms of office and employment of the Chairman of the Board of Directors, see Appendix B to report dated January 9, 2017 and report dated February 14, 2017.

   The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

   During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

   In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Law and the statutory rate of contributions to severance pay and provident funds.

   Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Law, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

Note 22 – Employees' Rights – continued

Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Law, including pursuant to Section 2(b) of the Law, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year). With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Law, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of the employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Law.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari as Bank President & CEO (hereinafter: "President & CEO").

   The Bank President & CEO is entitled to gross monthly salary of NIS 230,000. This salary is fully linked to changes in the Consumer Price Index ("Salary"). Notwithstanding the foregoing, in case of decrease in the CPI, the Salary would not be reduced accordingly. The Bank provides to the Bank President & CEO a budget of 15.33% for Bank contributions towards provident, pension and severance pay funds, to be transferred in whole or in part and as the case may be, to one or more provident funds as selected by the Bank President & CEO and in conformity with the cumulative conditions set forth in Appendix D to the report convening the General Meeting, dated August 27, 2020.

   The Bank President & CEO is also eligible to employer contributions to a study fund of the former's choice at 7.5% of the Salary.

Note 22 – Employees' Rights – continued

Upon approval of the terms of office and employment of the Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) of the Remuneration of Officers in Financial Corporations Law (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 (hereinafter: "the Executive Remuneration Law") amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

Upon termination of employment, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries (excluding social benefits), as they were immediately prior to their appointment to Bank President & CEO. He would also be entitled to social benefits with respect to this amount (to be accrued over the first two years in office as Bank President & CEO) (all these amounts jointly: "Acclimation Bonus for the President & CEO").

The Remuneration Committee and the Board of Directors may award to the Bank President & CEO an additional acclimation bonus amounting to the difference between the Acclimation Bonus for the President & CEO and an amount equal to six salaries, as they may be at that time, plus social benefits with respect there to, all subject to the maximum allowed by the Executive Remuneration Law.

Furthermore, upon termination of employment, the Bank would pay to the Bank President & CEO a retirement bonus equal to 150% of their monthly salary for December 2016 multiplied by the number of years of service to the Bank through 2016.

The Remuneration Committee and the Board of Directors may, at their own discretion, award to the Bank President & CEO performance-based remuneration – a monetary bonus not to exceed three salaries ("the maximum bonus") or part thereof for part of the bonus year. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would constitute, in whole or in part, equity-based remuneration. The value of equity-based remuneration to be awarded to the Bank President & CEO for that bonus year (if awarded) would not exceed (on aggregate 100% of the maximum bonus.

Eligibility of the Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Bank President & CEO would be subject to restitution provisions as per Section 6.10 of the Bank's remuneration policy. Such restitution provisions would not apply to half of the acclimation bonus pursuant to terms of employment of the Bank President & CEO, prior to being appointed Bank President & CEO, which constitutes variable remuneration (due to transitional provisions of the Supervisor of Bank's directive with regard to no impact to previously accrued rights).

Either party may announce discontinuation of employment at any time, for any reason and with no need to justify their position to the other party, subject to providing to the other party six months' advance notice.

During the early notification period, the Bank President & CEO would be required to work as usual and in full, but the Bank may waive such period, in whole or in part, and may terminate the work of the Bank President & CEO. In such case, the Bank will pay to the Bank President & CEO for the portion of the notice period in which the Bank waived the Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

3. Officer remuneration policy

On July 6, 2021, further to approval of the Bank's strategic plan, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter: "revised officer remuneration policy"), effective for three (3) years through December 31, 2023. The revised remuneration policy incorporates provisions of the Companies Law, 1999, the Remuneration of Officers in Financial Corporations Law (Special Approval and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Law") and Proper Conduct of Banking Business Directive 301A "Remuneration" with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, inter alia, to the Bank's strategic plan and to current employment terms of officers at the Bank.

Note 22 – Employees' Rights – continued

The revised remuneration policy incorporates provisions of the Companies Law and the Supervisor of Bank's directives with regard to remuneration. The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for an additional fixed component (named "Retention bonus" in the previous policy) equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Law (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million (plus linkage differentials to the Consumer Price Index, as stated in the Executive Remuneration Law).

The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Remuneration policy for all Bank employees

   In July 2021, the Bank's Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for three (3) years through December 31, 2023 for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees").

   The revised remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2021-2023.

   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

6. On May 24, 2022, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, a proposed option allotment to the Bank President & CEO, to Bank officers (other than Board members) and to other managers at the Bank and at its subsidiaries for 2022, in conformity with Section 15b(1)(a) of the Securities Law based on the outline for 2021-2023. For more information see Note 23.B.4.

7. On December 3, 2017, a collective bargaining agreement was signed with the Employees' Union and on December 11, 2017 this agreement was approved by the qualified organs of the Bank (hereinafter: "the new collective bargaining agreement").

Note 22 – Employees' Rights – continued

Below are highlights of the new collective bargaining agreement:

- The agreement applies to the period 2016-2021.
- Full and complete labor relations would be maintained throughout the term of the agreement.
- Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks and including success of the merger with Union Bank LeIsrael Ltd. at no additional cost to the Bank.
- During this period, fixed pay increases and differential pay increases would be given.

- The seniority increase to be given to new employees hired by the Bank as from signing the agreement would be lower than the current one.
- A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
- Employees employed by the Bank upon signing the agreement would receive a special perseverance and engagement bonus, equal to one half of a 13th monthly salary (based on the value as of the agreement signing date), for each year from 2018 through 2021 in return for their actual work during these years, where the bonus part with regard to 2019 being contingent on overall agreement as to how Union Bank employees would be included in the collective bargaining agreement. The contingent part has been postponed until 2021.
- The voluntary retirement plan approved by the Bank's Board of Directors on December 27, 2016 would be implemented.
- Various understandings were reached to allow the Bank additional managerial flexibility with regard to human resources.

8. On December 20, 2018, a collective bargaining agreement was signed with the Managers' Organization for 2018-2022. Below are highlights of the new collective bargaining agreement:
   - This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global overtime and expense reimbursement (per diem, car expenses, education and so forth).
   - The base pay includes all fixed monthly pay components paid prior to the effective start date of this agreement, except for additional seniority pay and additional management pay.
   - The annual additional seniority pay would be at 1% of the base pay.
   - The additional management pay would be determined based on managerial complexity.
   - Overtime will be paid on a global basis.
   - Updated contribution towards expenses for kindergarten, after-school activity and higher education for managers' children.
   - Voluntary retirement program.
   - Monthly pay increase of NIS 2,500 per manager, as from January 1, 2018.
   - Differential pay increase for managers for 2019-2022 (based on return on equity for 2020-2022).
   - Absolutely complete calm labor relations throughout the term of the agreement.

9. Labor and payroll agreements at the Technology Division

   Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

   Employees of the Technology Division have their pay linked to the pay for Bank employees.

   On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters.

Note 22 – Employees' Rights – continued

10. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.
11. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.
12. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.
13. Long-service bonuses

    Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

14. Reserve with respect to tuition pay

    Bank employees under the collective bargaining agreement hired by August 16, 2017 are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

15. Reserves with respect to long-service bonuses, tuition and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government bonds in Israel plus the average yield spread for corporate bonds rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government bonds, all as of the reporting date.

    The calculation takes into account future real increase in pay of between 3.50%-4.50%.

    The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

16. Bank Yahav

    Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees. The plan provides a defined benefit based on years of service and most recent salary.

    Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

    To some of its employees, Bank Yahav committed to transfer, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to supplement the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

    On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration for 2018-2022.

Note 22 – Employees' Rights – continued

17. Union Bank
    - Special collective bargaining agreement at Union Bank

      On March 25, 2021, a special collective bargaining agreement was signed by Union Bank and two of its subsidiaries, by the New General Labor Union / the MAOF trade union / Bank and Credit Company Staff Division and by the Employee Union of Union Bank and the Manager and Authorized Signatory Association of Union Bank (hereinafter in this paragraph: "the Agreement"). The Agreement stipulates the retirement terms and conditions for regular employees of Union Bank, certain temporary employees who meet the criteria stated in the Agreement and certain other employees of the subsidiaries ("Retiring Employees") following the merger of Union Bank with and into the Bank ("Retirement Program"). Pursuant to the Agreement, Union Bank offered to relevant employees who would depart as a result of the merger, a Retirement Program with terms and conditions as set forth in the Agreement (hereinafter: "the Retirement Program"). The Retirement Program is to govern retirement of 340 of the relevant employees, as defined above. In conformity with the Retirement Program, the Retiring Employees were allowed to retire from Union Bank within a specified time period. The benefits offered, depending on employees' age and seniority, included a bridging pension or increased severance pay, retirement bonuses and other benefits applicable to certain employee groups. The retirement of these employees pursuant to the program was gradual through 2022, in conformity with the rules, periods and dates stipulated in the agreement.

      On June 21, 2021, an addendum to this agreement was signed, whereby the number of retiring employees increased to 480. Moreover, the periods and dates for employee retirement were updated – all through 2022. The final number of retiring employees was close to the specified number, and additional cost beyond the aforementioned were recognized under Payroll Expenses.
    - Agreement between Igud Systems and Mizrahi Tefahot Technology Division

      On April 11, 2021, an agreement was signed (hereinafter: "the Agreement") between Igud Systems Ltd. (hereinafter: "Igud Systems") and Mizrahi Tefahot Technology Division Ltd. (hereinafter: "Technology Division") and the Employee Union of Igud Systems, which governs the onboarding of Igud Systems employees subject to the Agreement, as employees of the Technology Division, upon the operational merger between the Technology Division and Igud Systems, each one based on their employment status at Igud Systems immediately prior to the merger, and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division.

      On January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. was completed.
    - Remuneration plan for Union Bank employees

      In June 2021, the Board of Directors of Union Bank approved a remuneration plan for Union Bank employees which includes incentives for achieving the merger objectives in 2021-2022. Furthermore, the Board of Directors of Union Bank approved remuneration and a remuneration plan for executives of Union Bank, in conformity with the Union Bank remuneration policy approved on February 23, 2021. Union Bank had appropriate provisions on the financial statements with regard to the aforementioned remuneration plan.

B. Liability amounts with respect to benefits by type:

	December 31	
	2022	2021
	NIS in millions	
Post-retirement benefits(1)		
Liability amount	204	254
Benefits post termination and prior to retirement(2)		
Liability amount	2,193	2,493
Fair value of plan assets	455	497
Excess liability over plan assets	**1,738**	**1,996**
Benefits prior to termination of employment(3)		
Liability amount	163	181
Excess liability included under Other Liabilities	**2,105**	**2,431**
Of which: With respect to overseas employee benefits	**4**	**4**

(1) Holiday gifts and other post-retirement employee benefits.
(2) Pension, severance pay and other benefits in defined-benefit plan, including balance of liability with respect to employees who have retired.
(3) Primarily jubilee bonus and tuition for current employees.

Note 22 – Employees' Rights – continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

	December 31	
	2022	2021
		NIS in millions
Obligation with respect to expected benefit at start of period	2,747	2,370
Cost of service	83	84
Cost of interest	70	53
Actuarial loss (gain)	(343)	393
Benefits paid	(224)	(153)
Obligation with respect to expected benefit at end of period	**2,333**	**2,747**
Obligation with respect to cumulative benefit at end of period[2]	**2,185**	**2,368**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.
(2) Excludes any assumptions with regard to level of future remuneration.

1.2. Change in fair value of plan assets and plan funding status

		December 31
	2022	2021
		NIS in millions
Fair value of plan assets at start of period	498	461
Actual return on plan assets	(35)	47
Deposits to plan by the Bank	8	14
Benefits paid	(16)	(24)
Fair value of plan assets at end of period	**455**	**498**
Funding status – net asset recognized at end of period	**455**	**497**

1.3. Amounts recognized on the consolidated balance sheet

		December 31
	2022	2021
		NIS in millions
Amounts recognized under Other Liabilities	**1,942**	**2,250**

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

	December 31	
	2022	2021
		NIS in millions
Net actuarial loss	(155)	(789)
Total – recognized under Other Comprehensive Income	**(155)**	**(789)**

Note 22 – Employees' Rights – continued

C. Defined benefit plans (pension, severance pay and other benefits)[1] – continued

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

	December 31	
	2022	2021
	NIS in millions	
Obligation with respect to expected benefit	2,397	2,747
Obligation with respect to cumulative benefit	2,185	2,368
Fair value of plan assets	455	498

2. Expenses during the reported period

2.1. Net benefit cost components recognized in profit and loss

	For the year ended December 31		
	2022	2021	2020
	NIS in millions		
Under payroll and associated expenses			
Cost of service	83	84	70
Under other expenses			
Cost of interest	70	53	32
Expected return on plan assets	(20)	(13)	(6)
Deduction of non-allowed amounts:			
Net actuarial loss	62	62	47
Total under other expenses	**112**	**102**	**73**
Total benefit cost, net	**195**	**186**	**143**

2.2. Changes to plan assets and benefit obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31		
	2022	2021	2020
	NIS in millions		
Net actuarial loss (gain) for the period	(455)	87	33
Amortization of actuarial loss[2]	(62)	(62)	(47)
Total – recognized under Other Comprehensive Income	**(517)**	**25**	**(14)**
Total benefit cost, net	**195**	**186**	**143**
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	**(322)**	**211**	**129**

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2023, before tax effect

	NIS in millions
Net actuarial loss	42
Total expected to be deducted from Cumulative Other Comprehensive Income	**42**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year would be amortized using the straight line method over the remaining average term of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.D.13 to the financial statements.

Note 22 – Employees' Rights – continued

3. Assumptions

3.1 Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

3.1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31	
	2022	2021
		In %
Discount rate	1.75	(0.07)
Discount rate – CPI	2.50	1.40
Departure rate	2.65	2.65
Remuneration increase rate	3.50	3.50

3.1.2. Key assumptions used to measure benefit cost for the period (in %):

	December 31		
	2022	2021	2020
			In %
Discount rate	2.54	2.09	2.02
Expected long-term return on plan assets	3.27	2.88	4.43
Remuneration increase rate	3.50	3.50	3.50

3.2. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
	December 31		December 31	
	2022	2021	2022	2021
Discount rate	(196)	(247)	242	312
Departure rate	77	138	(139)	(138)
Remuneration increase rate	108	154	(91)	(127)

4. Plan assets

4.1. Fair value composition of plan assets

Asset type		December 31				
		2022				2021
		Level 1	Level 2	Level 3	Total	Total
Cash and deposits with banks		18	–	–	18	23
Shares		87	3	–	90	100
Government assistance to legacy pension funds		–	12	–	12	13
Other		13	63	24	100	101
Bonds:	Government	32	123	–	155	166
	Designated Government	–	12	–	12	12
	Corporate	33	35	–	68	84
Total		**183**	**248**	**24**	**455**	**499**

Note 22 – Employees' Rights – continued

4.2. Fair value of plan assets by asset type and allocation target for 2022 (in %)

Asset type		Allocation target	Percentage of plan assets	
		For year	As of December 31	
		2023	2022	2021
Cash and deposits with banks		4	4	5
Shares		20	20	20
Government assistance to legacy pension funds		3	3	3
Other		22	22	20
Bonds:	Government	34	34	33
	Designated Government	3	3	2
	Corporate	14	14	17
Total		**100**	**100**	**100**

5. cash flows

5.1. Deposits to defined-benefit pension plan

Asset type	Allocation target	Actual deposits	
	For year	For the year ended December 31	
	(1)2023	2022	2021
Deposits	7	8	14

(1) Estimated deposits expected to be paid into defined-benefit pension plans in 2023.

Note 22 – Employees' Rights – continued

5.2 Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2023	417
2024	122
2025	120
2026	111
2027	102
2028-2032	437
2033 and later	900
Total	**2,209**

Note 23 – Share-based Payment Transactions

A. Stock option plan for the current and former Bank President & CEO

On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari, the current Bank President & CEO (hereinafter: "Current President & CEO") who replaced Mr. Eldad Fresher (hereinafter: "the Former Bank President & CEO").

1. Stock option plan for the current President & CEO

In conjunction with the 2021 option plan, approved by the Bank Board of Directors on July 26, 2021, the Bank President & CEO was allotted 18,468 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.
The options allotted with respect to 2021 may be exercised as from September 5, 2023. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 99.36(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and until the known CPI upon the exercise date.
The exercise price (NIS 99.36) was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Bank President & CEO. Furthermore, the closing price cap was set at NIS 140, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.
For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.11%, reflecting the standard deviation for a period of 8 years. The risk-free interest rate used to value the options was estimated at (1.44%).
Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date by the Board of Directors of the option award, is NIS 11.75.
Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounted to NIS 217 thousand.
The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

In conjunction with the 2022 option plan, approved by the Bank Board of Directors on May 24, 2022, the Bank President & CEO was allotted 38,409 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.
The options allotted with respect to 2022 may be exercised as from June 26, 2024. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 118.10(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and until the known CPI upon the exercise date.

The exercise price (NIS 118.10) was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Bank President & CEO. Furthermore, the closing price cap was set at NIS 163, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.61%, reflecting the standard deviation for a period of 8 years. The risk-free interest rate used to value the options was estimated at (0.48%).

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 13.33.

Note 23 – Share-based Payment Transactions – continued

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 512 thousand.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

In 2022, the Bank President & CEO exercised 28,634 options from previous plans, at an exercise price of NIS 71.63(1) (in 2021, exercised 65,709 options at an exercise price of NIS 67.22(1); in 2020, exercised 47,482 options at an exercise price of NIS 55.43(1)). The average share price upon exercise of options into shares in 2022 was NIS 120.80 (in 2021 the exercise price was NIS 94.29 and in 2020 the exercise price was NIS 84.89).

As of December 31, 2022, the Bank President & CEO had 97,137 options (as of December 31, 2021: 87,362 options; as of December 31, 2020: 142,349 options) at an exercise price of NIS 118.10(1) (in 2021 the exercise price was NIS 99.36; in 2020 the exercise price was NIS 67.62).

2. Stock option plan for the former President & CEO

As part of the 2019 option plan, the Bank allotted 22,148 options to the Former Bank President & CEO. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.

The options allotted with respect to 2019 may be exercised as from July 26, 2022. The exercise price for each option allotted to the Former Bank President pursuant to the plan is NIS 70.88(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and up to the known CPI upon the exercise date.

The exercise price is determined based on the average closing price of Bank ordinary shares on the stock exchange over the thirty trading days preceding the approval date by the Board of Directors. Accordingly, note that on the exercise date, the Former Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares to be actually allotted to the Former Bank President & CEO.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 22.33%-22.84% reflecting the standard deviation for periods of 3.59-5.30 years. Risk-free interest ranges between (0.58%)-(0.73%) for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Former Bank President pursuant to the option plan, as of the approval date of option award by the Board of Directors, is NIS 10.61.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 235 thousand.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

In 2022, 22,148 options were exercised from previous plans, at an exercise price of NIS 70.88 (in 2021, no options were exercised; in 2020, exercised 40,558 options at an exercise price of NIS 46.19(1)). The average share price upon exercise of options into shares in 2022 was NIS 124.10 (in 2020 the exercise price was NIS 71.74).

As of December 31, 2022, the former Bank President & CEO had no options (as of December 31, 2021 and 2020: 22,148 options).

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(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – continued

B. Stock option plan for employees

1. On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three years as from January 1, 2017.
On August 31, 2017, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, allocation of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Law. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, option allocation to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Law, all as delisted a report issued by the Bank on August 31, 2017 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

As resolved by the Board of Directors on August 31, 2017, the following option plans were approved:
- Option plan A – up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 180,353 options C to be awarded to up to four key Bank employees and up to three key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A, B and for key employees pursuant to option plan C were in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.
All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.
An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

Return on equity for the bonus year shall be at least 9%;
Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives. In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").

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(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – continued

The total weight of quantitative benchmarks would be forty-two percent of the annual lot of options A and thirty percent of the annual lot of options B. The total weight assigned to the qualitative benchmarks would be fifty-two percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark would be twenty-two percent.
The total weight of qualitative benchmarks would be fifty-eight percent of the annual lot of options A and forty percent for options B. The total weight assigned to the qualitative benchmarks would be seventy percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark for options A would be forty percent for options B.

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and shall not be determined based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to banking benchmark, operating efficiency ratio and average ratio of deposits to loans.
The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 28 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 31, 2017.
In 2018, no options were issued under any of the plans listed in the outline report.

On April 11, 2019, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve allotment of options to other officers and managers of the Bank and its subsidiaries, whereby the Bank would allot 4,363,275 options to 396 offerees. The options were allotted pursuant to the employee offering outline, issued by the Bank on August 31, 2017 ("the 2017 outline").

The options were allotted as follows:

- Up to 357,140 options A to be awarded pursuant to option plan A to up to 7 Bank officers who are not gatekeepers.
- Up to 159,145 options B to be awarded pursuant to option plan B to up to 5 Bank officers who are not gatekeepers.
- Up to 263,975 options C to be awarded pursuant to option plan C to up to 4 key employees of the Bank and 19 key employees of Bank subsidiaries.
- Up to 1,430,360 options D to be awarded pursuant to option plan D to up to 98 managers employed by the Bank subject to individual employment contracts and to other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group for the purpose of the outline.
- Up to 2,152,655 options E to be awarded pursuant to option plan E to up to 267 managers employed by the Bank subject to collective bargaining agreements.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 57 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.
All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated April 11, 2019.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on April 11, 2019:

Exercise price	- NIS 72.37 [(1)]
Risk-free interest rate	- (0.10%)-(0.55%)
Annualized standard deviation	- 17.74% -18.03%

Option plan					
	A	B	C	D	E
Number of options (in thousands)	347	156	264	1,430	2,153
Term to expiration (in years)	3.48-5.48	3.48-5.48	3.48-5.48	5.15	5.15
Average fair value per single option	11.76	11.75	11.82	13.42	13.42
Total fair value (NIS in thousands)	4,198	1,868	3,120	19,191	28,893

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2022		2021		2020	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	693,775	72.37	5,007,742	71.36	5,344,353	70.94
Granted during the year[(1)]	–	–	–	–	–	–
Forfeited during the year	–	–	–	–	2,883	64.79
Exercised during the year[(2)]	406,224	72.37	4,313,987	71.24	333,728	64.65
Outstanding at year end	287,531	72.37	693,755	72.37	5,007,742	71.36

(1) The weighted average fair value of stock options granted in 2019 was NIS 13.13.
(2) The weighted average share price upon exercise of options into shares during 2022 was NIS 122.91 (2021 – NIS 102.71).

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2022	December 31, 2021	December 31, 2020
Range of exercise prices (in NIS)	**70-80**	**70-80**	**70-80**
Number of stock options	287,531	693,755	5,007,742
Weighted average exercise price (in NIS)	72.37	72.37	71.36
Weighted average remaining contractual term (in years)	1.70	2.25	3.00
Of which vested:			
Number of stock options	31,941	188,226	371,090
Weighted average exercise price (in NIS)	72.37	72.37	64.65

2. On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated June 8, 2020, approved the offering of options to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Law, as stated in the employee offering outline dated June 22, 2020 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

Note 23 – Share-based Payment Transactions – continued

As resolved by the Board of Directors on June 22, 2020, the following option plans were approved:
For the Bank's previous President & CEO with respect to 2019:

- Option plan 1 – 22,148 options 1 exercisable for up to 22,148 Bank ordinary shares of NIS 0.1 par value each.

For other Bank managers with respect to 2020:

- Option plan A – up to 343,527 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 343,527 Bank ordinary shares of NIS 0.1 par value each. (Includes allotment of 42,627 options A awarded to the Bank President & CEO with respect to the period from January 1, 2020 through September 15, 2020.
- Option plan B – up to 199,500 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 199,500 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 517,700 options C to be awarded to up to eighteen key Bank employees and up to sixteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 517,700 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 779,930 options D to be awarded to up to fifty-six managers employed by the Bank subject to individual employment contracts and up to twenty-seven other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 779,930 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 1,454,530 options E to be awarded to up to two hundred sixty-eight managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,454,530 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.
Also note that in case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as stated in the Employee Offering Memorandum.
The options issued in the name of the previous Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A, B and key employees in plan C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2023; and (3) April 1, 2024, and each lot of options would expire 18 months after each of said dates.
All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.
An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer.
- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and shall not be determined based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.10 of the Memorandum.

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.
The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 23 million.
The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2020 through the end of the year.

Note 23 – Share-based Payment Transactions – continued

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated June 22, 2020.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on June 22, 2020:

Exercise price	- NIS 70.88 (1)
Risk-free interest rate	- (0.44%) - (0.58%)
Annualized standard deviation	- 26.06%- 24.09%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	344	199	518	780	1,454
Term to expiration (in years)	3.59-5.30	3.59-5.30	3.59-5.30	4.08	4.08
Average fair value per single option	9.97	10.00	9.89	10.41	10.41
Total fair value (NIS in thousands)	3,430	1,990	5,123	8,120	15,136

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2022		**2021**		**2020**	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	2,288,081	70.88	2,288,081	70.88	–	–
Granted during the year(1)	–	–	–	–	3,295,187	70.88
Forfeited during the year	–	–	–	–	1,007,106	70.88
Exercised during the year(2)	1,659,567	70.88	–	–	–	–
Outstanding at year end	628,514	70.88	2,288,081	70.88	2,288,081	70.88

(1) The weighted average fair value of stock options granted in 2020 was NIS 10.26.
(2) The weighted average share price upon exercise of options into shares during 2022 was NIS 125.32.

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2022	**December 31, 2021**	**December 31, 2020**
Range of exercise prices (in NIS)	**70-80**	**70-80**	**70-80**
Number of stock options	628,553	2,288,081	2,288,081
Weighted average exercise price (in NIS)	70.88	70.88	70.88
Weighted average remaining contractual term (in years)	2.13	2.67	3.66
Of which vested:			
Number of stock options	101,182	–	–
Weighted average exercise price (in NIS)	70.88	–	–

Note 23 – Share-based Payment Transactions – continued

3. On July 26, 2021, the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2021, pursuant to Section 15b(1)(a) of the Securities Law, as stated in the employee offering outline dated July 26, 2021, including approval of pools for option warrant issuance in 2021-2023 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

   As resolved by the Board of Directors on July 26, 2021, the following option plans for 2021 were approved:

   - Option plan A – up to 301,506 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 301,506 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan B – up to 173,509 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 173,509 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 493,250 options C to be awarded to up to nineteen key Bank employees and up to fourteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 493,250 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 811,300 options D to be awarded to up to sixty managers employed by the Bank subject to individual employment contracts and up to twenty-four other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 811,300 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – up to 1,547,900 options E to be awarded to up to two hundred sixty-four managers employed by the Bank subject to collective bargaining agreements and up to twenty-four managers of Bank subsidiaries, exercisable for up to 1,547,900 Bank ordinary shares of NIS 0.1 par value each.

   The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 140 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

   In case of dividend distribution, bonus share distribution, rights issuance, split or reverse split of share capital and re-structuring at the Bank, the adjustments shall be made as set forth in the Outline employee offering.

   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A, B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2024; and (3) April 1, 2025, and each lot of options would expire 18 months after each of said dates.

   All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

   An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

   In addition, eligibility conditions for options would be based on the following criteria:

   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer specified in the employee offering outline.
   - Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and shall not be determined based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.3 of the Memorandum.

Note 23 – Share-based Payment Transactions – continued

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and the core deposit ratio.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 41 million.

The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the third quarter of 2021 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated July 26, 2021.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on July 26, 2021:

Exercise price	- NIS 99.36 (1)
Risk-free interest rate	- (1.25%) - (1.47%)
Annualized standard deviation	- 23.11%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	301	174	493	811	1,548
Term to expiration (in years)	3.59-5.19	3.59-5.19	3.59-5.19	4.09	4.09
Average fair value per single option	11.94	11.93	11.96	12.70	12.70
Total fair value (NIS in thousands)	3,594	2,076	5,896	10,300	19,660

Details of the number of stock options and their exercise price for all plans are as follows:

	2022		**2021**	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	3,319,550	99.36	–	–
Granted during the year(1)	–	–	3,327,465	99.36
Forfeited during the year	8,000	99.36	7,915	99.36
Exercised during the year	–	–	–	–
Outstanding at year end	3,311,550	99.36	3,319,550	99.36

(1) The weighted average fair value of stock options granted in 2021 was NIS 12.48.

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2022	**December 31, 2021**
Range of exercise prices (in NIS)	**90-100**	**90-100**
Number of stock options	3,311,550	3,319,550
Weighted average exercise price (in NIS)	99.36	99.36
Weighted average remaining contractual term (in years)	2.74	3.74
Of which vested:		
Number of stock options	–	–
Weighted average exercise price (in NIS)	–	–

Note 23 – Share-based Payment Transactions – continued

4. On May 24, 2022, the Bank's Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2022, pursuant to Section 15b(1)(a) of the Securities Law, as stated in the employee offering outline dated July 26, 2021, including approval of pools for option warrant issuance in 2022 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

   As resolved by the Board of Directors on May 24, 2022, the following option plans for 2022 were approved:
   - Option plan A – up to 271,080 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 271,080 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan B – up to 155,168 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 155,168 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan C – up to 550,100 options C to be awarded to up to seventeen key Bank employees and up to seventeen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 550,100 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan D – up to 852,750 options D to be awarded to up to fifty-nine managers employed by the Bank by individual contracts, and up to thirty other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 852,750 Bank ordinary shares of NIS 0.1 par value each.
   - Option plan E – Up to 1,556,200 options E to be awarded to up to two hundred and sixty-eight managers employed by the Bank subject to collective bargaining agreements, and to up to twenty-one managers at Bank subsidiaries, exercisable for up to 1,556,200 Bank ordinary shares of NIS 0.1 par value each.

   The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 163 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

   In case of dividend distribution, bonus share distribution, rights issuance, split or reverse split of share capital and re-structuring at the Bank, the adjustments shall be made as set forth in the Outline employee offering.

   The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A, B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2025; and (3) April 1, 2026, and each lot of options would expire 18 months after each of said dates.

   All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

   An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

   In addition, eligibility conditions for options would be based on the following criteria:
   - Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the Quantitative Benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer, all as set forth in the outline.
   - Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined exclusively based on the quantitative benchmarks. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.3 of the Memorandum.

Note 23 – Share-based Payment Transactions – continued

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and the core deposit ratio.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 45 million.

The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2022 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated July 26, 2021.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on May 24, 2022:

Exercise price	- NIS 118.10 [(1)]
Risk-free interest rate	- (0.48%) - (0.27%)
Annualized standard deviation	- 23.61%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	271	155	550	853	1,556
Term to expiration (in years)	3.59-5.36	3.59-5.36	3.59-5.36	4.09	4.09
Average fair value per single option	13.28	13.34	13.09	13.68	13.68
Total fair value (NIS in thousands)	3,599	2,068	7,200	11,669	21,286

Details of the number of stock options and their exercise price for all plans are as follows:

	2022	
	Number of options	**Weighted average exercise price (in NIS)**
Outstanding at year start	–	–
Granted during the year[(1)]	3,385,298	118.10
Forfeited during the year	6,667	118.10
Exercised during the year	–	–
Outstanding at year end	3,373,548	118.10

(1) The weighted average fair value of stock options granted in 2022 was NIS 13.69.

Below is information about stock options outstanding at year end by exercise price range:

	December 31, 2022
Range of exercise prices (in NIS)	**100-120**
Number of stock options	3,373,548
Weighted average exercise price (in NIS)	118.10
Weighted average remaining contractual term (in years)	3.59
Of which vested:	
Number of stock options	–
Weighted average exercise price (in NIS)	–

Note 24 – Share Capital and Shareholders' Equity

A. Details on share[1] capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31		December 31	
	2022	2021	2022	2021
Ordinary shares, NIS 0.1 par value[2]	400,000,000	400,000,000	257,175,661	256,486,472

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Dividends

– Restrictions on dividends distribution

As directed by the Supervisor of Banks, banking corporations are required to avoid dividends distributions if they may fail to meet the capital targets specified, inter alia, in Proper Conduct of Banking Business Directive 331 and in the Supervisor of Banks' letters "Capital policies for interim periods" and "Basel III framework – minimum core capital ratios". For further details, see Note 25.

– Policies for dividends distribution

In conformity with resolution by the Bank Board of Directors dated February 26, 2018, it is the Bank's dividends policy to distribute dividends with respect to quarterly earnings, at up to 40% of net profit attributable to Bank shareholders, subject to Bank compliance with a ratio of Tier I capital to risk components as required by the Supervisor of Banks, and to maintaining appropriate safety margins.

Note that in conformity with the aforementioned dividends policy, the Bank may buy-back Bank shares, subject to the foregoing. Note that buy-back of Bank shares, as noted above, shall be considered a "distribution", as defined in the Corporate Law, 1999 and would therefore reduce any dividends amount to be distributed by the Bank pursuant to the dividends policy. "Distribution" pursuant to the dividends policy (both dividends distribution and share buy-back), as noted above, in conformity with Board resolutions in this regard, as passed from time to time and subject to statutory provisions, including restrictions stipulated by the Supervisor of Banks.

Under the five-year strategic plan for 2021-2025, approved by the Board of Directors on April 26, 2021, the Board of Directors shall monitor execution of the new strategic plan, in order to consider potential increase of the dividends rate up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I equity to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

Note that the aforementioned dividends policy does not constitute any resolution nor commitment to make any dividends distribution, and that any "distribution" would be subject to approvals as required by law, including approval of the distribution by the Board of Directors, all at the discretion of the Board of Directors and subject to all statutory provisions.

Note 24 – Share Capital and Shareholders' Equity – continued

Below is information about dividend distributions by the Bank since 2020 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 24, 2020	March 11, 2020	74.89	0.40	176.0
Total dividend distributions in 2020[3]				**176.0**
August 16, 2021	August 31, 2021	188.99	[1]0.30	483.0
November 15, 2021	November 30, 2021	293.47	[2]0.30	752.7
Total dividends distributed in 2021[4]				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022[5]				**940.9**

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2020 earnings – NIS 483.0 million.
(4) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(5) Total dividends distributed with respect to 2022 earnings – NIS 669.3 million.

– Dividends declared with respect to earnings in the fourth quarter of 2022

For more information about dividends distribution with respect to earnings in the fourth quarter of 2022, see Note 36 "Events after the balance sheet date".

Note 25 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of December 31	
	2022	**2021**
1. Consolidated data		
a. Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	25,072	21,969
Tier I capital[(1)]	25,072	21,969
Tier II capital	8,015	7,914
Total capital	**33,087**	**29,883**
b. Weighted risk asset balances		
Credit risk[(3)]	234,383	202,611
Market risks	1,301	2,268
Operational Risk	16,567	13,831
Total weighted risk asset balances	**252,251**	**218,710**
	In %	
c. Ratio of capital to risk elements		
Ratio of Tier I equity to risk components[(1)(2)]	9.94	10.04
Ratio of Tier I capital to risk components	9.94	10.04
Ratio of total capital to risk components	13.12	13.66
Minimum Tier I equity ratio required by Supervisor of Banks[(3)]	9.60	8.60
Total minimum capital ratio required by the Supervisor of Banks[(3)]	12.50	12.50
.		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	10.51	9.85
Ratio of Tier I capital to risk components	10.51	9.85
Ratio of total capital to risk components	13.45	13.49
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	8.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	–	16.28
Ratio of Tier I capital to risk components	–	16.28
Ratio of total capital to risk components	–	19.40
Minimum Tier I capital ratio required by Supervisor of Banks	–	8.43
Total minimum capital ratio required by the Supervisor of Banks	–	12.50

(1) These data include supervisory adjustments with respect to the following: Streamlining programs, charged equally over 5 years as from the start date thereof, effect of initial application of accounting principles with regard to expected credit losses and with respect to initial application of the Bank of Israel circular regarding weighting of loans subject to increased risk for purchase of land. For more information see section A.3 and A.4 below and sections G. and I. below.

(2) In a system-wide review conducted by the Supervisor of Banks in the banking system with regard to residential mortgages, calculation of the payment to income ratio (PTI) was revised in conformity with clarification issued regarding application of the directive. The effect of this revision (along with correction of a minor error in application of the calculation for a particular segment) resulted in a non-material increase in the Bank's risk assets, amounting to a decrease by 0.1% in the ratio of Tier I capital to risk components. These effects are included in calculation of Tier I capital ratio as from the financial statements as of September 30, 2022.

(3) For more information about adjustments to minimum capital ratios due to the Corona Virus crisis, see section F. below.
For Tier I equity ratio, a capital requirement was added at 1% of the balance of residential mortgages as of the reporting date, except for residential mortgages extended during the Corona Virus crisis.

Note 25 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

A. Capital adequacy – continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31	
	2022	**2021**
3. Capital components for calculating the capital ratio (on consolidated data)		
a. Tier I equity		
Shareholder's equity	24,868	21,729
Differences between shareholders' equity and Tier I equity	(543)	(513)
Tier I equity before regulatory adjustments and deductions	**24,325**	**21,216**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	(147)	(167)
Deferred tax assets	–	(6)
Supervisory adjustments and other deductions[1]	612	892
Total supervisory adjustments and deductions, before adjustments with respect to streamlining programs and before adjustments with respect to expected credit losses – Tier I equity	**465**	**719**
Total adjustments with respect to streamlining programs[2]	15	34
Total adjustments for expected credit losses [3]	267	–
Total Tier I equity after supervisory adjustments and deductions	**25,072**	**21,969**
b. Tier II capital		
Tier II capital: Instruments, before deductions	5,437	5,933
Tier II capital: Provisions for credit losses before deductions	2,785	1,981
Total Tier II capital, before deductions	**8,222**	**7,914**
Deductions:		
Deductions – Total adjustments for expected credit losses	(207)	–
Total Tier II capital	8,015	7,914
Total capital	**33,087**	**29,883**

4. Effect of adjustments with respect to streamlining plan on Tier I capital ratio:

	As of December 31	
	2022	**2021**
		In %
Ratio of capital to risk components		
Ratio of Tier I equity to risk components, before effect of adjustments	9.78	10.03
Effect of adjustments with respect to the streamlining programs	–	0.01
Effect of adjustments for expected credit losses	0.12	–
Effect of adjustments with respect to loans subject to increased risk for land purchase	0.04	–
Ratio of Tier I equity to risk components after implementation of transition provisions	9.94	10.04

(1) Includes deferred credit balance from acquisition of Union Bank as from September 30, 2020 and deduction with respect to residential mortgages amounting to NIS 30 million. For more information see section G. below.

(2) Adjustments with respect to streamlining programs concerning employees (on December 31, 2021: NIS 38 million with respect to streamlining program concerning employees and NIS 1 million with respect to streamlining program concerning real estate).

(3) Adjustments due to expected credit losses, see section H. below.

Note 25 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

B. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31	
	2022	2021
1. Consolidated data		
Tier I capital[1]	25,072	21,969
Total exposure	463,010	423,950
		In %
Leverage ratio	5.42	5.18
Minimum leverage ratio required by the Supervisor of Banks[2]	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	6.08	5.55
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
Union Bank Le-Israel Ltd. and its subsidiaries		
Leverage ratio	–	8.37
Minimum leverage ratio required by the Supervisor of Banks	–	4.50

(1) This data includes adjustments with respect to streamlining plans and adjustments with respect to initial application of accounting principles for expected credit losses, see section A.3, A.4 above.

(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

C. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of December 31	
	2022	2021
		In %
1. Consolidated data		
Liquidity coverage ratio[1]	118	125
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
2. Bank data		
Liquidity coverage ratio[1]	118	120
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Liquidity coverage ratio[1]	209	266
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
Union Bank Le-Israel Ltd. and its subsidiaries		
Liquidity coverage ratio[1]	–	165
Minimum liquidity coverage ratio required by the Supervisor of Banks	–	100

(1) In terms of simple average of daily observations during the reported quarter.

Note 25 – Capital adequacy, liquidity and leverage – continued

D. Minimum net stable funding ratio required by directives of the Supervisor of Banks

As from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive 222 concerning "Net stable funding ratio (NSFR)", which adopts the Basel Committee recommendation with regard to net stable funding ratio in the banking system in Israel. In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The net stable funding ratio consists of two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

Pursuant to the directive, the minimum net stable funding ratio required is 100%.

The net stable funding ratio for significant banking subsidiaries in Israel is calculated in conformity with Proper Conduct of Banking Business Directive 222 "Net stable funding ratio". Net stable funding ratio in significant overseas banking corporations is presented and calculated in conformity with relevant directives in each jurisdiction, if specified.

	September 30, 2022	December 31, 2021
	2022	**2021**
		In %
(1) On consolidated data		
Net stable funding ratio	115	119
The minimum net stable funding ratio required by the Supervisor of Banks	100	100
(2) Significant subsidiaries		
Bank Yahav		
Net stable funding ratio	156	162
The minimum net stable funding ratio required by the Supervisor of Banks	100	100

Factors which may materially affect the net stable funding ratio

Net stable funding ratio on consolidated basis as of December 31, 2022 was 115%. Volatility of this ratio throughout the quarter was low; the main factors affecting the net stable funding ratio are: composition of Bank sources and uses by financing term, financing type and counter party. On the sources side – long-term liabilities are more stable than short-term liabilities, and funding from retail customers and small businesses is more stable than wholesale funding with the same maturity. When long-term sources grow shorter on a large scale (such as with subordinated notes) to a term shorter than one year, this factor affects the resulting ratio; however, because this is a funding source which typically has scattered maturities, the impact on the resulting ratio is not material. On the uses side – asset type, asset term and quality and liquidity value determine the required stable funding amount.

E. Basel III

As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:
- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to impaired debt
- Capital allocation with respect to CVA risk

Note 25 – Capital adequacy, liquidity and leverage – continued

These regulations are applied gradually, in line with transitional provisions specified in Proper Conduct of Banking Business Directive 299 with regard to "Capital measurement and adequacy – Supervisory capital – Transitional provisions", in order to allow for compliance with new supervisory capital requirements in applying Basel III and to specify a transition period pending full application. The transition provisions refer, *inter alia*, to supervisory adjustments and deductions from capital, and to capital instruments not qualifying for inclusion in supervisory capital, in conformity with the new criteria stipulated in Basel directives. In particular, in conformity with transition provisions, supervisory adjustments and deductions from capital, and non-controlling interest not qualifying for inclusion in supervisory capital were gradually deducted from capital, at 20% in each year from January 1, 2014 through January 1, 2018. Capital instruments no longer qualifying as supervisory capital were recognized up to a cap of 80% on January 1, 2014, and this cap is reduced by a further 10% in each subsequent year through January 1, 2022. Conseqently, as from January 1, 2022, transition provisions expired and non-qualifying capital instruments may no longer be recognized in supervisory capital.

F. Ratio of capital to risk components

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. Calculation of total capital and total risk components is set forth in the directives.

An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the report date.

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

During the crisis, the Supervisor of Banks issued updates extending the validity of the Interim Directive, and with regard to reduction of capital requirements, the Supervisor of Banks stipulated that this relief measure would apply through 24 months after expiration of the directive, provided that the banking corporation's capital ratios would not be lower than the capital ratios upon expiration of the directive, or the minimum capital ratios applicable to the banking corporation prior to the Interim Directive, whichever is lower. However, the circular stipulates that reduction of capital ratios by up to 0.3 percentage points within six months after expiration of the directive shall not be deemed a deviation from the foregoing.

On December 27, 2021, the Supervisor of Banks issues a circular whereby the Interim Directive would expire as from January 1, 2022. Furthermore, an update was made to Proper Conduct of Banking Business Directive 329 regarding "Restrictions on residential mortgages" whereby the additional capital requirement at 1 percentage point would only apply to residential mortgages and would not apply to residential mortgages other than for purchasing interest in real estate and by mortgage on an apartment (hereinafter: "General-purpose loan").

Accordingly, the minimum Tier I equity ratio required of the Bank as of the reporting date is 9.60%, and the minimum total capital ratio required of the Bank as of the reporting date is 12.50% (to which appropriate safety margins would be added).

G. Streamlining plan

In a letter dated January 12, 2016, regarding operational streamlining of the banking system in Israel, the Supervisor of Banks granted capital relief with regard to streamlining programs in labor expenses, cost of real estate and maintenance of headquarters and management units. In this relief, the effect of streamlining programs on supervisory capital is attributed in a straight line over five years, for calculation of capital adequacy ratios.
On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, approved by the Supervisor of Banks, including a voluntary retirement program and reduction of real estate areas. On December 31, 2018, the Union Bank Board of Directors approved a streamlining program, also approved by the Supervisor of Banks. The effect of relief with respect to the streamlining programs on Tier I capital ratio is negligible.

Note 25 – Capital adequacy, liquidity and leverage – continued

H. Issue and redemption of subordinated notes with loss-absorption provisions

In January 2022, after approval by the Supervisor of Banks, the Bank conducted an early redemption of subordinated capital note (Series A) for NIS 2.1 billion. The subordinated note issued by the Bank did not qualify as supervisory capital pursuant to Basel III directives and was gradually written down.

In August 2022, Bank Yahav made a full, early redemption, after approval by the Bank of Israel, of CoCo contingent subordinated notes amounting to NIS 129 million.

Further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 56, recognized by the Supervisor of Banks as Tier II capital of the Bank) on September 10, 2022, for NIS 0.3 billion.

On December 8, 2022, Tefahot Issuance issued a new series (Series 65) of contingent subordinated obligatory notes – CoCo), CPI-linked, amounting to NIS 0.7 billion par value, for NIS 0.7 billion.

Further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 47, recognized by the Supervisor of Banks as Tier II capital of the Bank) on December 18, 2022, for NIS 0.75 billion.

I. Effect of application of accounting principles with regard to expected credit losses on supervisory capital

As from January 1, 2022, the Bank applies the new directives with regard to expected credit losses (CECL) and charges the cumulative effect to retained earnings upon initial application. On December 1, 2020, the Supervisor of Banks issued a circular regarding "Supervisory capital – Effect of implementation of accounting principles with respect to expected credit losses", which included, *inter alia*, an update to Proper Conduct of Banking Business Directive 299, stipulating that if, due to initial application of these rules, upon the date when a banking corporation should initially apply these rules, the banking corporation's Tier I equity should decrease, then the banking corporation may partially include in Tier I equity (i.e. add back to Tier I equity) the decrease in Tier I equity recorded upon initial application, over three years (hereinafter: "transition period").

The effect of this relief on the Tier I capital ratio was 0.12% as of December 31, 2022.

For more information about the effect of initial application, see Note 1.C.1. above.

J. The standard approach for calculation of counter-party credit risk exposure (SA-CCR)

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

On December 1, 2021, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directives which include, inter alia, addition of Proper Conduct of Banking Business Directive 203A regarding "Handling counter-party credit risk in conformity with SA-CCR", which replaces the current approaches in Directive 203 for calculation of counter-party exposure upon default. In conformity with the circular, the Directive applies as from July 1, 2022.

On August 15, 2022, the Supervisor of Banks issued a circular whereby the risk weighting with respect to CVA risk attributed to insurers, provident funds and mutual funds would be revised in conformity with the risk weighting attributed to banking corporations.

The Bank applies the Directive as from July 2022. Application of this directive has no material impact on the Bank's capital adequacy ratios.

In December 2021, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 208A with regard to capital allocation with respect to CVA risk.

The Bank is required to apply the directive as from January 1, 2025.

Note 25 – Capital adequacy, liquidity and leverage – continued

K. Circular regarding update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach – credit risk

On May 22, 2022, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 203 ("Capital measurement and adequacy – Standard approach – Credit risk"), designed to address exposure to the construction and real estate sector.
According to the circular, loans designated for purchase of land for development or construction, with an LTV higher than 80% of the purchased property value, shall carry an increased risk weighting of 150%, except for loans for purchase of agricultural land with no planning horizon or intention to apply for re-zoning, and except for loans designated for purchase of land for own use by the borrower, who is not classified under the Construction and Real Estate sector, based on sector classification in Supervisory Reporting Directive 831 "Total credit risk by economic sector".
The directive applies as from June 30, 2022, but the Bank may apportion the impact of change in risk weighting on the capital adequacy ratio with respect to the current loan portfolio as of June 30, 2022 in equal quarterly rates, from September 30, 2022 through June 30, 2023.
As of December 31, 2022, there was no material impact on the capital adequacy ratios, as is the case later in the attribution cycle.

L. Leverage ratio

On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.
The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.
According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.
On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5% on consolidated basis, compared to 5% prior to this change. In conformity with circulars issued March 22, 2021, September 30, 2021 and May 15, 2022, the Directive was extended and applies from issue date thereof through December 31, 2023. After expiration of the Directive, the relief shall remain in effect for a further 24 months, provided that the leverage ratio would be no less than the leverage ratio upon expiration of the Directive, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.
On May 15, 2022, the Supervisor of Banks issued another circular, whereby this relief shall apply through June 30, 2024, provided that the leverage ratio would be no less than the leverage ratio as of December 31, 2023, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

M. For more information about the Bank's policy on dividend distribution, see Note 24.B "Share capital and shareholders' equity".

Note 26 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection[2]

	As of December 31	
	2022	**2021**
Israeli currency – linked to the CPI	3,134	3,194
Israeli currency – non-linked	4,715	4,037
Foreign currency	54	47
Total	**7,903**	**7,278**

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	As of December 31							
							2022	**2021**
	Up to 1 year	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 10 years**	**Over 10 years to 20 years**	**Over 20 years**	**Total**	**Total**
In the CPI-linked sector[3]								
Cash flows of futures contracts	14	21	14	23	15	3	90	96
Expected future cash flows net of management's estimate of early repayments	14	20	13	22	13	1	83	88
Discounted expected future flows net of management's estimate of early repayments[4]	13	19	13	18	9	1	73	88
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	–	–	1	1	1	–	3	–
Expected future cash flows net of management's estimate of early repayments	–	1	1	1	–	–	3	–
Discounted expected future flows net of management's estimate of early repayments[4]	–	1	–	1	–	–	2	–

3. Information on loans extended by mortgage banks during the year

	2022	**2021**
Loans out of deposits according to extent of collection	198	263
Standing loans and grants	89	104

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 835 million (2021 – NIS 920 million) are not included in this table.

(3) Includes foreign currency sector.

(4) In the CPI- and foreign currency-linked segments, capitalized at a rate of 2.13%; in the non-linked segment, capitalized at a rate of 4.98%. (2021: at 0.13%, 2.6%, respectively).

Note 26 – Contingent Liabilities and Special Commitments – continued

B. Other liabilities and special commitments

	2022	2021
1. IT and software service contracts[1]	313	382
2. Acquisition and renovation of buildings[2]	221	16

(1) Includes an agreement between Union Bank and Bank Leumi for provision of IT services amounting to NIS 135 million with respect to 2021-2022.

(2) Including a commitment to construct another building in Lod, to which all of the Bank's headquarters units would be gradually relocated.

4. Credit sales operations

	2022	2021	2020
Carrying amount of credit sold	1,903	234	233
Total consideration	1,943	234	116
Service obligation – expense with respect to operational services	32	6	–
Total net gain (loss) with respect to credit sold	8	(6)	(117)

C. Contingent liabilities and other commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange (“TASE”), a risk fund was established, which totaled NIS 1,899 million as of December 31, 2022. The share of Bank and subsidiaries in the fund as of December 31, 2022 is estimated at NIS 189 million (as of December 31, 2021 – NIS 159 million).

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 50% of their share in the risk fund. These funds are deposited by stock exchange clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a wholly-owned subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 389 million (as of December 31, 2021 – NIS 477 million).

   Likewise, the Bank has undertaken to deposit its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 633 million as of December 31, 2022. The share of the Bank and subsidiaries in the fund as of December 31, 2022 is estimated at NIS 193 million (as of December 31, 2021: NIS 120 million).

   In accordance with a decision by the MAOF Clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 50% of their share in the risk fund. These funds are deposited by MAOF Clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

3) Union Bank had a material long-standing contract with Bank Leumi LeIsrael Ltd. (hereinafter: "Leumi") pursuant to an agreement signed on September 2, 2021 and extended from time to time, with regard to provision of IT and operating services for a large part of the core banking systems by outsourcing, which expired on December 31, 2016. As from said date, a three-year period started, classified as "contract termination period", which was extended on March 29, 2018 as suggested by Leumi, through June 30, 2021. Further to approval by the Union Bank Board of Directors dated May 12, 2020, Union Bank and Leumi signed an addendum to the agreement whereby, after fulfillment of suspensive conditions, the agreement term was extended through December 31, 2022. Union Bank may not terminate the contract prior to the expiration date stipulated in the addendum. The consideration paid by Union Bank for services rendered amounted to NIS 125 million for 2020 and NIS 135 million for 2021-2022. Another contract was signed for the first quarter of 2023, for NIS 23 million.

Note 26 – Contingent Liabilities and Special Commitments – continued

4) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to settle securities and to honor any monetary charge arising from transactions executed by that company.

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

   In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office with the Bank all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not directors in conjunction with their action as directors on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

   On October 28, 2004, the General Meeting of the Bank resolved to add to the list of events for which the Bank granted a commitment to indemnify to Bank officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action, agreement or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

   On May 14, 2006, the General Meeting of the Bank resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as a director in a company in which the Bank owns any shares, and to those serving, from time to time at the Bank's request, as a director in a company controlled by the Bank.

   On November 9, 2011, the General Assembly of the Bank resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

   The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011.

Note 26 – Contingent Liabilities and Special Commitments – continued

The General Assembly also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholder equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses, including attorneys fees – all as specified in the in the Financial Services Supervision Law (Insurance), 1981 and in the Financial Services Supervision Law (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Law, 1988.

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer to whom the exemption was granted) has a personal interest.

The General Assembly of the Bank also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

On August 30, 2018, the General Meeting approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future.

On October 15, 2020, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future. The amendment stipulates that the commitment to indemnify shall also apply to expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, as stated in the aforementioned amendment to the Bylaws. The amendment further stipulates that the letter of commitment and anything related to it are subject exclusively to laws of the State of Israel and the Tel Aviv Yafo District Court shall have sole jurisdiction over any such matter. The list of events in the addendum to the letter of commitment was also revised. Pursuant to a resolution by the Audit Committee dated August 17, 2020, the resolution to approve the amended letter of commitment, with regard to its applicability to parties other than controlling shareholders and relatives thereof, would be brought for re-approval as required by law within 9 years after October 15, 2020.

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

Note 26 – Contingent Liabilities and Special Commitments – continued

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of bonds and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholder equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

Note 26 – Contingent Liabilities and Special Commitments – continued

Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholder equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount. Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the opinion of the management of the Bank, based on the opinion of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to shareholders of the Bank:

a) In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the Defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Law, 2000 (hereinafter: "the Non-Discrimination Law") and the Banking Law (Customer Service), 1981 (hereinafter: "the Banking Law").

The plaintiff alleges that this is the overall policy of all defendants, with a decision made to eliminate the "non-young" population from the benefit program. The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Law or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Law). The Bank filed its response to the motion on September 13, 2016 and the plaintiff has filed their response to this response.

Note 26 – Contingent Liabilities and Special Commitments – continued

On October 27, 2016, the plaintiff filed its response to the Bank's response to the motion. On January 25, 2017, a preliminary hearing was held on the motion for approval. An evidentiary hearing set for September 2017 was canceled after the parties concluded a written agreement. The plaintiff's summation was filed on October 26, 2017 and the Bank's summation was filed on December 21, 2017. The plaintiff filed their response summation, including a motion for removal of annexes enclosed with the banks' summations. The banks filed their response to this motion on January 9, 2018 and on September 26, 2019 a verdict was handed down, rejecting the motion for class action status and erasing the personal claim. On November 4, 2019, the plaintiff appealed the denial of the motion to the Supreme Court. The parties have filed their summations. On June 2, 2021, a hearing took place at the Supreme Court. On October 20, 2022, the Supreme Court issued a verdict denying the appeal, with no expenses awarded.

b) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to customers eligible to be classified as a small business, in breach of the Bank's duties in its relations with customers.

The plaintiff claims that the Bank has not disclosed to customers who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at their expense.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a motion with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court to combine the hearing of this case with the five other motions; The Bank filed its response to the motion on July 10, 2017; On July 20, 2017, the Court ruled and rejected the motion to combine all of these motions. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court. On January 21, 2018 the motion for consolidation was heard. On April 17, 2018, a resolution was handed down combining the hearing of this motion with 5 other motions filed against 5 other banks. Consequently, a pre-trial hearing of all these motions was scheduled for December 19, 2018. At this hearing, the Court discussed a motion by the Bank to erase sections from the plaintiff's response, as well as a motion by the plaintiff to erase the Bank's response to the motion for approval, citing alleged breach of a prior resolution with regard to document discovery.

On November 28, 2019, the Court handed down a ruling on the pre-trial motions, rejecting the motion by the plaintiff to erase the Bank's response. The plaintiff has filed a motion to appeal with the Supreme Court the ruling rejecting their discovery motion, and a resolution on this matter is still pending. As ruled by the Court, on May 17, 2020 the Bank filed its response to the plaintiff's response to the Bank's response to the motion for approval. A pre-trial hearing was held on April 6, 2021 and dates for evidentiary hearings were scheduled for March 2023. Concurrently, on July 19, 2021, the Court handed down a resolution which proposed that the parties conduct a mediation proceeding prior to the scheduled evidentiary hearing, and the parties accepted the Court's proposal. On November 24, 2021, a mediation meeting took place which was un-successful. On January 3, 2022, the Court handed down its resolution with regard to a request for the opinion of the Supervisor of Banks, allowing either party to provide to the Court three questions which they would like for the Supervisor to refer to in their position statement. Accordingly, on February 8, 2021, a notice was filed on behalf of the banks, listing their proposed questions. On February 13, 2022, the Court ruled, instructing the Supervisor of Banks to provide their opinion with regard to the dispute subject of the motions, and their comments on the questions filed by the parties. On February 16, 2022, the plaintiff filed a motion seeking to disclose Bank information about the percentage of small businesses out of all corporations; The Bank filed its response to the motion on April 14, 2022. On May 25, 2022, the Court ruled and rejected the plaintiff's motion to disclose the aforementioned requested information.

Note 26 – Contingent Liabilities and Special Commitments – continued

On August 22, 2022, the Supervisor of Banks filed their position with regard to the dispute in this case, with reference to questions sent to the Supervisor of Banks. Following the position expressed by the Supervisor of Banks, the Court suggested that both parties should resume the mediation proceeding. Given the agreement in principle by all parties to conduct a mediation proceeding, on October 19, 2022 the Court issued a ruling recommending the allocation of payment of the mediator fees, to which the Bank has consented. The plaintiffs rejected the Court's recommendation.

On November 27, 2022, a pre-trial hearing took place, at which the parties stated their claims with regard to the Supervisor of Banks' position. Evidentiary hearings were scheduled for March-April 2023.

c) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court in Lod amounting to NIS 124 million. The claim involves setting of the interest rate on residential mortgages bearing adjustable interest – bonds. The plaintiffs allege that the Bank issues an approval in principle to the customer, listing the bond base as the only mechanism for interest calculation in the adjustable interest track – bonds for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It was further alleged that the condition specified by the Bank in the agreement for activation of the emergency defensive provision is unfair and provides the Bank with an unreasonable advantage over the customers.

the Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019.

On February 27, 2019, a pre-trial hearing took place in the motion for approval, after which the Court recommended that the parties seek mediation to tr and resolve their dispute by mutual agreement. As proposed by the Court, the parties have started a mediation process.

On January 18, 2022, the parties filed a motion with the Court seeking approval of a settlement agreement, announcing that following the mediation proceeding, the parties have reached a settlement agreement in the motion for approval of this lawsuit. On February 3, 2022, the Court gave its comments on the settlement agreement. The revisions to the settlement agreement as requested by the Court were made and submitted. On April 17, 2022, a resolution was issued with regard to publishing a notice of the motion filed for approval of the settlement agreement. On May 12, 2022, the notice was duly published. Concurrently, the settlement agreement was referred for comments by the Attorney General. On November 4, 2022, the Attorney General filed its position, objecting to the settlement agreement as it currently stands. On November 6, 2022, the Court issued a ruling instructing the parties to file their responses to the Attorney General's position. On January 26, 2023, the parties filed their response to the position of the Attorney General along with a revised settlement agreement. On February 1, 2023, a pre-trial hearing took place, attended by a representative of the Attorney General, and the major objection by the Attorney General to the settlement agreement was removed. At the end of this hearing, the Court ruled that they would comment on certain matters of a technical nature remaining from the Attorney General's position, in the ruling on the motion for approval of the settlement agreement. The Court also ruled that the parties should submit a revised, signed settlement agreement. Consequently, on February 8, 2023, the parties submitted to the Court the final, signed settlement agreement and the text of a message to be published with regard to approval of the settlement agreement.

On March 1, 2023, the Court ruled and commented on the settlement agreement. The parties were required to file their comments. Therefore, on March 5, 2023 the parties filed their comments on questions raised by the Court, and on March 8, 2023 a verdict was handed down, confirming the settlement agreement and rejecting the Attorney General's position on matters of a technical nature.

In conformity with the settlement agreement, the Bank would reimburse each customer with a loan where the emergency protection provisions have been activated, for the difference between the monthly amount they were actually charged through the settlement agreement's execution date, and the monthly amount they would have paid at a reduced interest rate, set at 22.5% of the difference between the actual interest rate set for each loan, using said provision, and the interest rate that would have been payable using the bond anchor provisions. Moreover, for active loans where the interest period when the provisions were activated has yet to be completed, customers would receive a rebate for the outstanding period, by way of setting the interest rate at the aforementioned reduced rate.

Note 26 – Contingent Liabilities and Special Commitments – continued

d) In September 2018, a lawsuit and motion for class action status was filed with the Tel Aviv District Court, in the amount of NIS 180 million (estimated).

The motion alleges over-charging of commission upon early repayment of residential mortgages consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, allegedly in contravention of provisions of the Banking Ordinance (Early repayment of residential mortgage), 2002.

The plaintiff seeks a ruling, pursuant to the Class Action Lawsuit Law, whereby the lawsuit would be filed on behalf of all Bank customers who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law. In March 2019, the plaintiff's attorney announced that they were considering replacing the expert opinion enclosed with the motion for approval with an opinion from another expert. Consequently, the deadline for filing the Bank's response to the motion was postponed by agreement to April 29, 2019. Due to disagreement on the text of the opinion, the filing of the response will be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, the litigation agreement reached by the parties was approved; Accordingly, the Bank filed its response to the motion for approval on October 29, 2019; The plaintiff filed their response to the Bank's response on January 1, 2020.

On January 5, 2020, a pre-trial hearing took place in this case, at which the Court ruled that it would await further claims to be formulated by the parties, including with regard to a combined hearing with similar motions filed on the same matter. On March 16, 2020, the plaintiff filed a motion for document discovery. On August 10, 2020, the Bank filed its response to the motion for discovery, and the plaintiff has filed their response to the Bank's response. On September 15, 2020, a preliminary hearing took place at which the parties were required to file their position by October 25, 2020 as to whether the motion for approval may be ruled upon based on the material in the case and written summations; consequently, the Bank has filed its position insisting on conducting an evidentiary proceeding. A preliminary hearing took place on February 9, 2021, after which a resolution was handed down accepting the Bank's position and setting dates for evidentiary hearings. An evidentiary hearing took place on May 30, 2021. Thereafter, the parties agreed to submit the case for mediation; consequently, the parties held several mediation meetings. After further negotiations between the parties, outside the mediation meetings, the parties agreed in principle on a settlement agreement. Due to the mediation process being conducted, the scheduled evidentiary hearings were cancelled. The parties are to file an update notice with the Court regarding the settlement agreement, by May 14, 2023.

e) In December 2018, a claim and motion for class action status was filed with the Tel-Aviv District Court, in the total amount of NIS 280 million, against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.

The plaintiffs set the total damage, jointly and severally, at NIS 280 million. They claim that the damage with respect to each bank, should the defendants seek proportionate liability, is based on their market shares – with at least half of the damage to be attributed to the banks and the remainder – to the insurers.

The Bank filed its response to the motion for approval on June 10, 2019 and the plaintiff filed their response to the Bank's response on March 5, 2020. On February 16, 2021, a preliminary hearing took place, at which the Court highlighted the challenges in the motion and in combining defendants of two types (insurance companies and banks), and instructed the plaintiffs to state, by May 2, 2021, how they intend to continue with the motion for approval and against which defendants. The plaintiffs informed the Court that they were in discussions with some of the defendants in this case, and asked for an extension to provide the update. The plaintiffs must file their position by August 1, 2021. The Court accepted the plaintiffs' motion for an extension for discussions with some of the defendants, through October 30, 2021. Such update notices were filed on October 31, 2021 and on December 31, 2021, wherein the plaintiff announced that they continued to be in discussions with defendants (other than banks), and asked for a further 30-day extension to conclude these discussions.

Note 26 – Contingent Liabilities and Special Commitments – continued

The Court accepted the request made by the parties. Accordingly, the plaintiffs should file their position by January 31, 2022. On February 7, 2022, the Court ruled that the plaintiffs should refer in the update notice to all defendants (due to notices filed by some insurers with whom no negotiations are being conducted). Consequently, on February 13, 2022 the plaintiffs filed their own statement. On March 23, 2022, a hearing took place at which the evidentiary hearings were scheduled. An evidentiary hearing took place on November 8, 2022, at which the plaintiff's witnesses were questioned. On November 8, 2022, another evidentiary hearing took place. Concurrently, the parties are in negotiations with regard to a withdrawal agreement. On February 12, 2023, the parties filed an agreed motion with the Court, seeking approval to withdraw the motion for approval of the lawsuit against the Bank. On February 19, 2023, a verdict was issued approving the withdrawal motion and denying the individual claim by the plaintiff.

f) In May 2020, a motion for approval of class action status was filed with the Tel Aviv District Court, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank customers, allegedly in breach of provisions of the Privacy Protection Law, 1981 and other statutes, without providing required disclosure to Bank customers and without obtaining their consent. The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its customers when transacting on Bank web sites and apps, in order to conduct advertising campaigns, while these corporations process the information provided about the customers for their own needs, with no disclosure provided with regard to the purposes for which such information is being gathered and what information exactly is being gathered, other than a "legal disclaimer" on the Bank website which, the plaintiff alleges, is deficient and may not be regarded as consent. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its customers to third parties, including the "legal disclaimer", constitute unfair conditions in a uniform contract.

The plaintiff allegedly is unable to quantify the total damage to the class. The Bank filed its response to the motion for approval on March 1, 2021. On June 27, 2021, the plaintiff filed their response to the Bank's response to the motion for approval of class action status. On July 15, 2021, a consolidated hearing of this motion and a motion filed in the same matter against other banks took place, after which deadlines were set for filing withdrawal motions with regard to changes to and expansion of the front of the plaintiff's response and responses there to. Therefore, on August 30, 2021, the Bank filed a motion to dismiss parts of the plaintiff's response to the Bank's response to the motion for approval. On November 29, 2021, the plaintiff filed their response to the motion to dismiss, and on December 9, 2021, the Bank filed its response to the plaintiff's response. In conformity with the resolution by the Court, the lawsuits would be referred to the Supervisor of Banks for comments after a resolution will have been given in the motion to withdraw. Such resolution has yet to be given.

g) In April 2021, a motion for class action status was filed with the Tel Aviv District Court, against the Bank and 14 other defendants (other banks and financial institutions, hereinafter: "the defendants"), alleging transfer of private information to third parties while browsing the "Personal Zone" on websites and apps operated by the defendants, allegedly in violation of privacy and allegedly in breach of provisions of the Privacy Protection Law, Banking Rules and multiple other obligations imposed on the defendants.
The plaintiffs allege that the Personal Zone includes private, confidential information which is provided to third parties without express consent of the customers – and in particular to Google and its advertising service. This is done, inter alia, in conjunction with the Bank's use of Google's Google Analytics service. The plaintiff did not state the class damage amount. However, they estimate that monetary and non-monetary damage incurred by each class member amounts to NIS 2,000.
On June 23, 2022, the Bank filed its response to the motion for approval, with an enclosed expert opinion, and the plaintiffs filed their response to the Bank's response. On November 6, 2022, a pre-trial hearing took place in which the Court presented to the parties the alternatives for further resolution of the dispute, and ruled that the defendants should indicate, no later than November 27, 2022, whether they consent to mediation. The Court also ruled that should the mediation be unsuccessful, the defendants may file motions to dismiss parts of the response to the response, within 30 days after announcing such unsuccessful conclusion. Given the Court's proposal at this hearing, the parties agreed to submit to a mediation proceeding;
Accordingly, on March 7, 2023 the first mediation meeting took place, and this process is still on-going.
Another pre-trial hearing is scheduled for September 14, 2023.

Note 26 – Contingent Liabilities and Special Commitments – continued

h) In September 2021, the Bank received a motion for approval of class action status, filed at the Central District Court in Lod, against the Bank and four other banks, alleging publication, presentation, setting or charging commissions in foreign currency, in alleged violation of the law, rather than in NIS, and that the banks collect these fees in NIS base on high conversion rates. of NIS to foreign currency. The plaintiffs allege that bank price lists include various bank services for which commissions are denominated in foreign currency rather than in NIS, for services which have not been authorized to publish or charge commissions in foreign currency, across the board – even for customers who have no accounts in foreign currency. The plaintiffs further allege that the defendants collect these commissions with notional conversion of NIS to foreign currency at conversion rates higher than the official conversion rates published by the Bank of Israel.
The plaintiffs seek a determination, whereby the lawsuit would be filed in the name of any or all customers of the defendants, who have received bank services from the defendants, including third parties, and have been charged, directly or indirectly, a commission or expense that has been published, presented or set on the price list in a currency other than NIS (except for the three services set in USD on the complete price list, or for customers who have a foreign currency account).
The plaintiffs note that they are unable to accurately estimate the total damage to class members.
Even prior to the deadline for filing the Bank's response, on January 2, 2022, a hearing was held in this motion for approval, consolidated for hearing purposes with another motion alleging the opposite, whereby when a fee is specified in USD on the Bank price list, the Bank should charge it in USD rather than in NIS. At the conclusion of this hearing, the parties agreed for the plaintiffs to announce their withdrawal of the motion and to commit for the plaintiffs and anyone on behalf thereof not to file it again, with the plaintiffs charged for expenses. In conformity with the resolution, on March 22, 2022 the agreed motion to withdraw was filed. On May 9, 2022, a verdict was given confirming the motion to withdraw and charging expenses to the plaintiffs.

i) In February 2022, the Bank received a motion for class action status, filed with the Jerusalem District Court against the Bank and 9 other banks and against 2 private companies that operate, independently or by franchise, non-bank ATMs ("the motion"). The motion concerns cash withdrawals from customeraccounts at the defendant banks, made through non-banking ATMs operated by public companies.
The motion alleges, inter alia, that banks charge their customers an additional commission without full disclosure and allegedly unlawfully, for cash withdrawals made through private / non-banking ATMs, in addition to the commission paid to the private companies that operate these ATMs.
It is further alleged that these actions are in violation of the banks' statutory obligation to provide proper service to all customers, including those in areas where the bank branch had been closed (for the Bank, the motion noted that the Bank does not act to close branches); the scope of deployment of bank ATMs does not provide a solution for the entire population and for all bank customers. The damage to the class, according to the motion, was set at NIS 458 million in total against all defendants, with the plaintiff allowing the Court discretion in allocating liability among the defendants.
The Bank filed its response to the motion on August 7, 2022. The plaintiff filed their response to the banks' response.
On December 20, 2022, a pre-trial hearing took place. Later on, on January 1, 2023, the Court ruled and sought comments from the Supervisor of Banks as to the question, as worded by the Court, with regard to allegations in the motion for approval. On January 8, 2023, the Court ruled again that the Supervisor of Banks is to file their opinion. Consequently, on February 8, 2023, the Supervisor of Banks filed their opinion. On February 12, 2023, the Court ruled that, in view of the position of the Supervisor of Banks, the plaintiff is to file, no later than February 19, 2023, a motion to withdraw the motion for approval, or to justify their insistence on having this case heard. On February 19, 2023, the plaintiff filed a comment on the position of the Supervisor of Banks; as ruled by the Court, the Supervisor of Banks is to respond to this comment by the plaintiff, no later than April 13, 2023.

Note 26 – Contingent Liabilities and Special Commitments – continued

j) In April 2022, the Bank received a motion for approval of a class action lawsuit, filed with the Haifa District Court, concerning double charging of commission, allegedly unlawfully, in an exchange transaction of two foreign currencies, and absence of proper disclosure about these charges in the conversion differences.
As for the charging of a transaction commission, the plaintiff alleged that for conversion between two foreign currencies the Bank charges two transaction commissions (a sale transaction - conversion from one currency to NIS, and a buy transaction - conversion from NIS to the other currency), even though according to them, there was actually a single exchange transaction executed from one foreign currency to the other. As for the charging of conversion differences, the plaintiff alleged that the Bank does not disclose to the customer in advance, neither in the price list nor in the booklet "General terms and conditions for account management", the exact charging of conversion differences that would apply to the transaction.
The plaintiff noted that they were unable to accurately estimate the damage incurred by class members.
On June 2, 2022, the Bank filed a motion to dismiss out of hand, due to Court action in view of verdicts given in previous lawsuits filed by the attorney of the plaintiff in this case, all of which had been denied, or dismissed out of hand, as approved by the Supreme Court. On June 23, 2022, the plaintiff filed their response to the motion to dismiss out of hand. On June 13, 2022, the Bank filed a motion for an extension for filing the Bank's response to the motion for approval; On June 30, 2022, the Court ruled that the Bank's response to the motion for approval is to be filed within 30 days after ruling on the motion to dismiss out of hand. Further to the motion to dismiss out of hand, and in conformity with the Court ruling dated July 26, 2022, on September 5, 2022 the Bank filed a "comparison table", with reference to sections of the aforementioned motion for class action status, against reference to sections of motions for class action status previously discussed and ruled upon, according to the Bank. On September 21, 2022, the plaintiff filed their comments on the comparison table. On November 24, 2022, a hearing took place to discuss the motion to dismiss out of hand. On December 2, 2022, a ruling was issued that fully accepted the motion to dismiss out of hand, and the motion for approval was dismissed out of hand, and the plaintiff was charged expenses payable to the Bank. On January 18, 2023, the plaintiff appealed this verdict to the Supreme Court. The Bank is to file the response to this appeal; a hearing for additional verbal statements is scheduled for November 13, 2023.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 57 million.

11) Motions for class action status are pending against the Bank and its subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.

a) In April 2022, the Bank received a motion for class action status with no estimated amount, filed against the Bank with the Tel Aviv Yafo District Court. The motion alleges unlawful charging of a file opening commission upon loan origination, with this commission being "disguised interest", in breach of the Fair Credit Law, 1993 and in violation of provisions of Regulation 3 of the Non-bank Loan Regulations (Exclusion of credit transaction types from the scope of the law and exclusion of expenses from the scope of "addition"), 2019. Given the verdict, which denied a motion for class action status filed with a similar cause against a non-bank lender (Mimun Yashir), after discussing issues similar to the above motion (including interpretation of Amendment 5 to the Fair Credit Law, 1993 and regulations based there upon, as well as the issue of "hidden interest"), on September 22, 2022 the Court granted a stay of proceedings in this case, including delay in filing the Bank's response to the motion for class action status, pending a ruling by the Supreme Court in an appeal.

Note 26 – Contingent Liabilities and Special Commitments – continued

b) In September 2022, the Bank received a motion for class action status, filed with the Tel Aviv-Yafo District Court, concerning alleged unlawful charging of arrears interest and debt collection proceedings due to failure to repay loans of any kind, without prior warning, in contravention of provisions of Section 5(c) of the Banking Law (Customer Service), 1981, which stipulates that a banking corporation shall not advertise any encouragement for customers to obtain a loan, unless accompanied by a warning such as "Failure to make loan repayments may result in arrears interest charges and in debt collection proceedings". Allegedly, the Bank presents on its marketing website various loans for diverse purposes, and encourages its customers to obtain loans, where the actual advertising and/or another marketing method do not include the aforementioned warning (the plaintiff notes that a clarification is provided at the bottom of the page in small print, rather than a clear, separate warning for each offer, as allegedly stipulated by law). The motion does not indicate the alleged damage incurred by the class. The Bank filed its response to the motion for approval on December 22, 2022. On February 2, 2023, a pre-trial hearing took place at which the Court stated their opinion that this case was appropriate for mediation or discussion by the parties, and made a suggestion as to how the motion may be concluded by way of settlement.
Accordingly, the parties are in negotiations. The parties are to inform the Court of the outcome no later than March 16, 2023.

c) In November 2022, the Bank received a motion for approval of class action lawsuit, filed with the Center-Lod District Court; this motion involves the revision of interest rates in conformity with agreements for residential mortgages in the variable interest track based on bonds as an anchor (yield of Government bonds), alleging that this creates an unfair advantage for the Bank at the expense of borrowers, and that the condition stipulated in such agreements, whereby the change in anchor would only apply "on condition that the sum of these components shall not be less than 0%" constitutes, allegedly, a discriminatory condition in a uniform contract, as defined in Section 2 of the Uniform Contract Law, 1982.
The motion does not indicate the alleged damage incurred.
The Bank's response is due by April 11, 2023. A pre-trial hearing in this case is scheduled for July 5, 2023.

12) Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries thereof, as follows:

A) In September 2020, a motion for approval of a derivative lawsuit was filed with the Tel Aviv District Court by a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank. The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company. The claimed damage for Bank Yahav is over NIS 1 billion. Bank Yahav's response to the motion was filed on April 29, 2021 and the Bank's response was filed on May 3, 2021. The plaintiffs filed their responses to the motion on August 8, 2021. On December 26, 2021, a pre-trial hearing took place. After this hearing, it was stipulated that prior to setting a date for hearing the actual motion, this case would be referred to internal reminder on February 15, 2022, and should there by no open motions on said date, an evidentiary hearing would be scheduled. The case was assigned to a new judging forum, and on March 21, 2022 the parties were instructed to schedule dates for May or June 2022.
On March 23, 2022, the plaintiff filed a motion for document discovery (hereinafter: "the Motion for Document Discovery"). Concurrently, the plaintiff petitioned the Court to consider the time required for ruling on the motion, as part of scheduling the evidentiary hearing. On April 5, 2022, the Economic Enterprises Company filed a motion seeking to dismiss out of hand the motion for document discovery. On April 5, 2022, a ruling was handed down whereby, due to filing of the motion to dismiss, further hearing of the motion for document discovery shall take place after resolution of the motion to dismiss and in accordance there with.

Note 26 – Contingent Liabilities and Special Commitments – continued

On April 27, the plaintiff filed its response to the motion to dismiss. On October 24, 2022, the Court ruled and rejected the motion to dismiss, instructing the defendants to file within 30 days their response to the motion for discovery and review of documents. The Bank filed its response on December 21, 2022. On January 31, 2023, the Court ruled on the motion for document discovery, rejecting the motion with regard to the motion addressed to Bank Mizrahi Tefahot Ltd. Furthermore, the Court ruled that a ruling on the claim (also made by the Bank), prior to continuing the hearing of the motion for approval, whereby the motion for approval should be dismissed out of hand, since the plaintiff is not entitled to appeal to file a derivative claim, considering that she is not a registered shareholder of the Company for Economic and Cultural Enterprises. In order to rule on this matter,

On March 2, 2023 a pre-trial hearing took place, at which the plaintiff and the respondent on behalf of the Economic Enterprises Company were questioned. After this hearing, the Court set dates for filing summations with regard to the pre-trial question of the plaintiff's right to file the motion for approval of a derivative lawsuit, considering their position as a heir not registered as a shareholder of the Economic Enterprises Company, and the nature of the share held by the plaintiff's deceased husband.

B) On December 12, 2016, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Companies' Law, 1999 (hereinafter: "Motion for discovery"), asking for Union Bank ("Union Bank") to be instructed to disclose documents with regard to credit extended by Union Bank to the customer and to others whose debt is personally guaranteed by the customer ("the credit"). The motion alleges that members of the Board of Directors and of the Credit Committee of Union Bank have allowed the customerto accumulate enormous debt, amounting to NIS 270 million, allegedly without doing their duty to collect such debt when due. After various proceedings, on August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. The independent committee has completed its work and made recommendations which are being considered by the Union Bank Board of Directors. In conformity with the litigation agreement between the parties, the content of the Board of Directors' resolution passed in said discussion was provided to the plaintiff's attorney. The parties have entered into a mediation proceeding which proved unsuccessful. Therefore, on September 25, 2019, a motion was filed for approval of a derivative lawsuit ("the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to the customerin 2004-2008, with no collateral or with collateral that only partially covers his debt, with negligent discretion exercised and apparent indifference to the outcome from such matters. It further alleged that Union Bank and officers took no action to recover Union Bank's money. The plaintiff seeks to charge the defendants for the damage they have allegedly caused by their negligence, amounting to NIS 125 million, taking into account the receipts to be collected in the customer's insolvency proceedings. Concurrently, the plaintiff also filed a motion to reject the motion for document discovery and review. On October 28, 2019, the Court ordered this motion to be rejected.

By consensus request by the parties, on December 12, 2019 the Court ordered Union Bank to be added as co-defendant to the motion for approval of class action status. On May 24, 2020, Union Bank filed their response to the motion for approval of a derivative lawsuit. On May 25, 2020, the Court accepted the motion by Union Bank and issued a temporary confidentiality injunction, pending a different ruling, with regard to confidentiality of Union Bank's response to the motion towards third parties.

On July 29, 2020, a motion was filed on behalf of Globes newspaper and others, to remove the temporary confidentiality injunction, thereby allowing unlimited review and disclosure of documents enclosed with Union Bank's response to the motion for approval of a derivative lawsuit. On August 10, 2020, a pre-trial hearing took place, after which the Court ruled, denying the motion for confidentiality, both for Court proceedings and for Court documents, allowing Globes to review these documents. On September 21, Union Bank filed a motion for right to appeal this ruling. On January 19, 2021, the Supreme Court rejected the motion for right to appeal filed by Union Bank and adopted the agreement whereby Union Bank would be given time to inform the Court that certain information constitutes trade secrets – with reference both to information regarding the customer's privacy and the independent committee's report, in conformity with the Court ruling dated February 1, 2021. Union Bank filed such notice on February 16, 2021.

Note 26 – Contingent Liabilities and Special Commitments – continued

The Court approved the parties' consent to delay the hearing scheduled for January 13, 2021, in order to allow for negotiation between the Bank and insurers and other potential defendants, in conformity with the resolution dated December 31, 2020 by the Union Bank Board of Directors.

On February 18, 2021 the District Court accepted the motion filed by the Marker newspaper of HaAretz Newspaper Group Ltd. ("The Marker") and others filed a motion for injunction to review documents in the Court case and to join the proceeding with regard to the motion for confidentiality, allowing them to make claims with regard to "document redaction". On April 8, 2021, a hearing took place at which Union Bank provided an update to the Court on negotiations between Union Bank and insurers and other potential defendants.

At the end of this hearing, the Court ruled that by May 19, 2021, the defendants shall conclude the negotiations and inform the Court and the other party of the outcome thereof. The defendants should also consider including the plaintiff in the negotiations stage. In conformity with resolution, on May 19, 2021, Union Bank filed a notice whereby the negotiations have yet to be concluded and asking for a further 30-day extension. The Court granted the motion by Union Bank and ordered the update to be filed no later than June 20, 2021. On June 22, 2021, the Court granted the motion by Union Bank seeking a similar extension. On July 21, 2021, Union Bank filed an update motion, whereby the negotiations between the parties were in the final stages and asked for a further extension to conclude negotiations by September 9, 2021; the plaintiff filed their response. On July 23, 2021, the Court partially granted Union Bank's motion and ordered a further update with regard to the negotiations to be filed no later than September 1, 2021. In conformity with the resolution, Union Bank has filed a update notice seeking the Court to allow Union Bank to make further progress on the settlement, and to file a further update notice with regard to negotiations by the parties, no later than November 3, 2021. On October 4, 2021, the Court allowed the motion by Union Bank to provide an extension for an update, and instructed the parties to agree on dates for evidentiary hearings. On October 6, 2021, the Court handed down its ruling, scheduling the evidentiary hearing on March 22, 2022. Should there be any development in the parties' settlement negotiations – the parties should inform the Court of such progress. On March 28, 2022, the Union Bank Board of Directors, convened in an un-tainted forum, resolved to approve signing by Union Bank of a settlement agreement reached with the officers and insurers of the Board member and officer liability insurance policy; This agreement was filed for approval by the Court. On April 17, 2022, the Court ruled on the motion for approval of the settlement agreement; The Court allowed the plaintiff, even prior to discussing the approval of the settlement agreement, to consider whether they may join this agreement. Therefore, the parties were asked to file a joint notice, no later than May 2, 2022, stating whether or not they had reached agreement with regard to the arrangement and approval proceedings thereof. Should agreement not be reached, the plaintiff may file their comments on litigation aspects of the motion for approval, no later than May 9, 2022.

In conformity with this resolution, Union Bank filed a notice stating that no agreement has been reached with the plaintiff with regard to the arrangement and approval proceedings thereof. In conformity with the Court ruling. on May 12, 2022. the plaintiff filed their response to litigation aspects of the motion for approval of the settlement agreement. On May 16, 2022, the Court ruled, allowing the Attorney General to submit their comments no later than June 6, 2022. The Court also clarified that a hearing would take place, in any case, prior to making the settlement agreement public. On July 18, 2022, the Attorney General filed their position, whereby the motion for approval of the settlement agreement should be denied, due to the way in which it has been achieved (with objection of the plaintiff). On September 29, 2022, the Court allowed the parties to comment on the position of the Attorney General. Accordingly, on November 6, 2022, Union Bank filed their comments on the position of the Attorney General, including a potential motion for the Court to approve the settlement agreement as filed. On November 21, 2022, the plaintiff filed their response to comments made by Union Bank and the officers on the position of the Attorney General. No further rulings have been made in this case.
On December 29, 2022, the merger of Union Bank with and into Bank Mizrahi Tefahot was completed.

Note 26 – Contingent Liabilities and Special Commitments – continued

13) In October 2020, the Bank and Apple signed an agreement, whereby Bank customers with iOS based devices can pay using their Bank-issued credit cards on the Apple Pay app.

    In February 2019, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") to extend the agreement on joint issuing of charge cards to Bank customers. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements.

    In February 2019, the Bank signed with Isracard Ltd. and with Europay (Eurocard) Israel Ltd. an extension to the agreement on joint issuing of charge cards to Bank customers. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements. The Bank also has an agreement with Poalim Express Ltd. of Isracard Group on joint issuing of charge cards to Bank customers.

    In December 2022, the Bank signed with MaxIt Finance Ltd. an agreement on joint issuing of charge cards to Bank customers.

    The agreements with the credit card companies are subject to all regulatory requirements required by statute, if any.

14) A trust company that is a subsidiary of the Bank executes trust translations that include primarily trusteeships for trust funds, for bond holders, for owners of restricted shares and for the maintenance of bank accounts.

15) The Bank has undertaken vis-à-vis the trustees for bonds and subordinated obligatory notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the bonds and subordinated notes.

16) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.

    For more information about syndication transactions, see Note 30D.

Note 26 – Contingent Liabilities and Special Commitments – continued

D. Guarantees by maturity

The Bank provides a wide range of guarantees and indemnification to its customers, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

The following are guarantees issued by the Bank, by maturity date (NIS in millions):

	As of December 31, 2022				
	Expiring in 12 months or sooner	**Expiring in 1 to 3 years**	**Expiring in 3 to 5 years**	**Expiring in over 5 years**	**Total**
Loan guarantees	2,535	797	88	111	3,531
Guarantees to home buyers	11,962	5,433	875	799	19,069
Guarantees and other commitments	5,654	1,854	574	4,799	12,881
Commitments to issue guarantees	2,952	4,787	383	–	8,122
Total guarantees	**23,103**	**12,871**	**1,920**	**5,709**	**43,603**

	As of December 31, 2021				
	Expiring in 12 months or sooner	**Expiring in 1 to 3 years**	**Expiring in 3 to 5 years**	**Expiring in over 5 years**	**Total**
Loan guarantees	2,177	527	111	506	3,321
Guarantees to home buyers	10,699	3,796	534	1,553	16,582
Guarantees and other commitments	4,137	1,278	435	4,721	10,571
Commitments to issue guarantees	2,480	5,691	1,142	38	9,351
Total guarantees	**19,493**	**11,292**	**2,222**	**6,818**	**39,825**

Note 27 – Liens

On January 1, 2022, the updates to Proper Conduct of Banking Business Directive 336 regarding "Pledging assets of a banking corporation" became effective. These updates result from the increase in scope and variety of activities for which banking corporations are required to pledge assets. The directive includes requirements with regard to management of pledged assets and the risks associated there with. The updated directive transitions from a quantitative directive to a qualitative one, with a requirement for proper management and monitoring of pledging of assets. Accordingly, the Bank has set policy on this matter which governs, *inter alia*, management of these operations subject to corporate governance rules, risk management as well as control and monitoring, with due consideration to the importance of this matter and to materiality of these operations at the banking corporation at Group level.

Below is a summary description of pledged Bank assets as of December 31, 2022:

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

   In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

   1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government bonds of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2022: NIS 101 million was deposited. (As of December 31, 2021: NIS 124 million).

   2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2022, deposits to this account amounted to NIS 100 million (as of December 31, 2021: NIS 41 million).

   3) The aforementioned account in section 1 above was pledged by a first-ranked lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearinghouse.

   Furthermore, stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

   Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

   1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government bonds of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of bonds deposited as of December 31, 2022 is NIS 176 million (as of December 31, 2021: NIS 511 million).

   2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2022, deposits to this account amounted to NIS 223 million (as of December 31, 2021: NIS 22 million).

   3) The aforementioned account in section 1 above is pledged by a floating and fixed lien in favor of the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearinghouse.

B. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

   The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank bonds in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2022 and as of December 31, 2021, no bonds were deposited in this account.

Note 27 – Liens – continued

C The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2022, at USD 15 million (as of December 31, 2021: USD 16 million).

To secure Bank customer activity involving options overseas, the Bank provides as collateral bonds of foreign governments. For these operations, the Bank pledged securities valued, as of December 31, 2022, at USD 58 million (as of December 31, 2021: USD 47 million).

D. The Bank and subsidiaries contract Credit Support Annex (CSA) agreements with counter parties, intended to minimize the mutual credit risks created between parties when trading in derivatives. According to these agreements, the fair value of the parties' rights and obligations are measured periodically, and if either party's exposure exceeds the threshold specified in advance, then that party would make a transfer to the other party so as to limit the exposure until the next measurement date.

As of December 31, 2022, the Bank Group has provided to counter parties deposits amounting to NIS 934 million (December 31, 2021: NIS 600 million).
Under the EMIR regulation, applicable to some counter parties with whom the Bank trades OTC derivatives, the Bank is required to use central settlement for some of its transactions with such counter parties through LCH. As part of the central settlement requirements at LCH, the Bank is required to cap the variation margin and the initial margin using transfers to cap such exposure.
As of December 31, 2022, the Bank Group has provided NIS 1,108 million for variation margin capping, and for capping of initial margin capping – NIS 139 million (as of December 31, 2021: NIS 60 million and NIS 46 million, respectively).

E In accordance with the requirement of the regulatory agencies in the USA, the Bank's branch pledged securities worth USD 31 million as of the balance sheet date (as of December 31, 2021: USD 34 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2022 and December 31, 2021, the Bank pledged no foreign securities.

G. The Bank has pledged a mortgage portfolio valued at NIS 4.15 billion as well as monetary deposits amounting to NIS 2.56 billion, to secure long-term monetary loans received from the Bank of Israel to finance loans to micro and small businesses. The Bank serves as Trustee on behalf of the Bank of Israel with regard to loan operations and maintaining the loan portfolio sufficiently pledged. Should a particular loan no longer match the criteria prescribed by the Bank of Israel, this loan can no longer serve as collateral for monetary loans extended to the Bank, and therefore should the value of the pledged portfolio drop below the minimum threshold required, the Bank would be required to pledge additional loan portfolios or to provide other collateral.

H.

	December 31	
	2022	**2021**
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	315	1,332

I. On December 30, 2020, the Bank signed a pledge agreement and a secured bond to secure credit received from time to time from the Bank of Israel, whereby the Bank pledged by a first-ranked lien of unlimited amount and by assignment by way of pledge all assets and rights in specific accounts in the name of the Bank of Israel at the Tel Aviv Stock Exchange clearing house and at Euroclear, as well as all its assets and rights in certain residential mortgages and collateral to secure such loans, which are part of the residential mortgage portfolio originated by the Bank (for more information see Note 27.G.).

J. In conformity with directives of the Supervision Unit over Payment Systems at the Bank of Israel, operators of controlled payment systems are required to specify, for the systems they are responsible for, procedures in case of default, designed to enable the system operator to complete the settlement when due, in case of default by participants in the settlement for said date. The default arrangements would be applied to operations with SHVA and MASAV, applicable as from April 2023. As part of these arrangements, the Bank would deposit with the Bank of Israel NIS 230 million in the MASAV account and NIS 21 million in the SHVA account.

Note 28 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Description of derivatives and the risks inherent in such activity:

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivative instruments as fair value hedges or as cash flow hedges. For more information, see Note 1.D.16. to the financial statements.

2) Types and description of activity in financial derivative instruments

The activities in financial derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Fair value hedges:

  The Bank designates certain derivatives as fair value hedges. Change in fair value of derivatives hedging exposure to change in fair value of an asset, liability or firm commitment, is regularly recognized on the statement of profit and loss, as is the change in fair value of the hedged item, which may be attributed to the hedged risk.

- Cash flows hedges:

  The Bank designates certain derivatives as cash flows hedges. The accounting treatment of changes to fair value of derivatives hedging exposure to change in cash flows from an asset, liability or anticipated transaction depends on the effectiveness of hedging relationship.
  - The effective portion of the change in fair value of derivatives used to hedge cash flows is initially recognized under equity (off the statement of profit and loss), as a component of Other Comprehensive Income and then, when the anticipated transaction impacts the statement of profit and loss, it is reclassified to the statement of profit and loss.
  - The non-effective portion of the change in fair value of derivatives thus designated is immediately recognized on the statement of profit and loss.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis

	December 31, 2022			December 31, 2021		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	594	5,565	6,159	929	-	929
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Swaps[1]	32,082	31,670	63,752	28,571	22,422	50,993
Total[2]	**32,676**	**37,235**	**69,911**	**29,500**	**22,422**	**51,922**
Of which: Hedging derivatives[3]	**3,033**	**-**	**3,033**	**3,921**	**-**	**3,921**
Currency contracts						
Forward[4] contracts and futures[6] contracts	57,098	104,321	161,419	58,002	99,090	157,092
Options written	-	13,158	13,158	190	14,748	14,938
Options purchased	-	13,187	13,187	217	14,349	14,566
Swaps	909	805	1,714	1,352	1,191	2,543
Total	**58,007**	**131,471**	**189,478**	**59,761**	**129,378**	**189,139**
Of which: Hedging derivatives[3]	**-**	**-**	**-**	**-**	**-**	**-**
Contracts for shares						
Forward contracts and futures contracts	-	20,789	20,789	-	30,000	30,000
Options written	63	7,446	7,509	473	17,089	17,562
Options purchased[5]	-	7,447	7,447	18	16,908	16,926
Swaps	-	3,598	3,598	-	2,148	2,148
Total	**63**	**39,280**	**39,343**	**491**	**66,145**	**66,636**
Commodities and other contracts						
Forward contracts and futures contracts	-	258	258	-	57	57
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Total	**-**	**258**	**258**	**-**	**57**	**57**
Credit contracts						
Bank is guarantor	281	-	281	249	-	249
Bank is beneficiary	64	-	64	81	-	81
Total	**345**	**-**	**345**	**330**	**-**	**330**
Total stated amount	**91,091**	**208,244**	**299,335**	**90,082**	**218,002**	**308,084**

(1) Of which: swaps for which the banking corporation pays a fixed interest rate amounting to NIS 36,435 million (as of December 31, 2021: NIS 31,953 million).
(2) Of which: NIS/CPI swaps amounting to NIS 6,794 million (as of December 31, 2021: NIS 7,086 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 2,453 million (as of December 31, 2021: NIS 5,799 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 35,683 million (as of December 31, 2021: NIS 31,907 million).
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis – continued

	December 31, 2022					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	1,428	689	2,117	1,331	436	1,767
Of which: Hedging derivatives	217	–	217	56	–	56
Currency contracts(1)	94	2,904	2,998	291	2,417	2,708
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	677	677	7	725	732
Commodities and other contracts	–	4	4	–	4	4
Credit contracts	2	–	2	10	–	10
Total assets / liabilities with respect to derivatives, gross(2)	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	63	1,709	1,772	48	956	1,004

	December 31, 2021					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	335	266	601	498	299	797
Of which: Hedging derivatives	34	–	34	149	–	149
Currency contracts(1)	160	2,183	2,343	214	2,478	2,692
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	713	713	–	259	259
Commodities and other contracts	–	–	–	–	–	–
Credit contracts	2	–	2	5	–	5
Total assets / liabilities with respect to derivatives, gross(2)	**497**	**3,162**	**3,659**	**717**	**3,036**	**3,753**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**497**	**3,162**	**3,659**	**717**	**3,036**	**3,753**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	88	834	922	57	1,032	1,089

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivative instruments amounting to NIS 9 million (as of December 31, 2021 NIS 7 million). Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 7 million as of December 31, 2022.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Accounting hedges

1. Fair value hedge[1]

	For the year ended December 31	
	2022	2021
Interest contracts	Interest revenues (expenses)	Interest revenues (expenses)
Hedged items	(241)	(94)
Hedging derivatives	247	82

	Balance as of December 31			
	2022		2021	
	Book value	Cumulative fair value adjustments that increased the book value	Book value	Cumulative fair value adjustments that increased the book value
Securities available for sale	1,647	43	1,841	81

2. Cash flows hedges[2]

	For the year ended December 31			
	2022		2021	
	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
	12	(74)	(22)	(37)

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

D) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

	December 31, 2022						
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Govern-ments and central banks**	**Institu-tional investors**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**69**	**2,340**	**450**	**–**	**2,278**	**661**	**5,798**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,930)	–	–	(470)	(52)	(1)(2,452)
Mitigation of credit risk with respect to cash collateral received	–	(35)	–	–	(567)	(52)	(654)
On-balance sheet credit risk with respect to derivative instruments	**69**	**375**	**450**	**–**	**1,241**	**557**	**2,692**
Net off-balance sheet credit risk with respect to derivative instruments(2)	118	664	726	5	1,669	469	3,651
Total credit risk on derivative instruments	**187**	**1,039**	**1,176**	**5**	**2,910**	**1,026**	**6,343**
Carrying amount of liabilities with respect to derivative instruments	**54**	**3,575**	**450**	**14**	**470**	**658**	**5,221**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,930)	–	–	(470)	(52)	(2,452)
Pledged cash collateral	–	(1,645)	–	(14)	–	–	(1,659)
Net amount of liabilities with respect to derivative instruments	**54**	**–**	**450**	**–**	**–**	**606**	**1,110**

	December 31, 2021						
	Stock exchanges	**Banks**	**Dealers/ Brokers**	**Govern-ments and central banks**	**Institu-tional investors**	**Others**	**Total**
Carrying amount of assets with respect to derivative instruments	**73**	**1,905**	**77**	**42**	**470**	**1,092**	**3,659**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,132)	–	–	(315)	(476)	(1)(1,923)
Mitigation of credit risk with respect to cash collateral received	–	(773)	–	(42)	(155)	(40)	(1,010)
On-balance sheet credit risk with respect to derivative instruments	**73**	**–**	**77**	**–**	**–**	**576**	**726**
Net off-balance sheet credit risk with respect to derivative instruments(2)	**312**	**307**	**142**		**241**	**562**	**1,564**
Total credit risk on derivative instruments	**385**	**307**	**219**		**241**	**1,138**	**2,290**
Carrying amount of liabilities with respect to derivative instruments	**74**	**1,150**	**77**		**1,945**	**507**	**3,753**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,132)	–	–	(315)	(476)	(1,923)
Pledged cash collateral	–	(18)	–	–	(329)	–	(347)
Net amount of liabilities with respect to derivative instruments	**74**	**–**	**77**	**–**	**1,301**	**31**	**1,483**

(1) This balance consists entirely of derivative instruments subject to offset agreements.
(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, after mitigation of credit risk, and the on-balance sheet credit risk with respect to derivative instruments of the borrower.

In 2022, the Bank recognized expenses due to increase in credit losses with respect to derivatives amounting to NIS 32 million (in 2021 the Bank recognized revenues due to decrease in credit losses with respect to derivatives amounting to NIS 1 million; in 2020 the Bank recognized expenses due to increase in credit losses with respect to derivatives amounting to NIS 6 million).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

E) Maturity dates – stated amounts: year-end balances – Consolidated

	December 31, 2022				
	Up to three months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Interest contracts:					
NIS – CPI	589	2,480	2,778	947	6,794
Other	8,825	17,742	21,978	14,572	63,117
Currency contracts	128,689	56,090	4,551	148	189,478
Contracts for shares	36,262	2,972	109	-	39,343
Commodities and other contracts	20	542	41	-	603
Total	**174,385**	**79,826**	**29,457**	**15,667**	**299,335**

	December 31, 2021				
Total	**175,002**	**89,761**	**30,396**	**12,925**	**308,084**

Note 29 – Operating Segments and Geographic Regions

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for customers.

The financial information on the Report of the Board of Directors and Management is included based on definitions of supervisory segments.

In addition, the financial statements include, in this Note, disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in customerattribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking customers, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million.

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in bonds available for sale and in bonds held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	House-holds – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses	-
Interest revenues from externals	1,540	9,361	3	1,952	573	-
Interest expenses from externals	1,228	-	386	453	148	-
Interest revenues, net from externals	312	9,361	(383)	1,499	425	-
Interest revenues, net – inter-segment	1,879	(6,811)	555	359	32	-
Total interest revenues, net	**2,191**	**2,550**	**172**	**1,858**	**457**	-
Total non-interest financing revenues	-	-	-	-	-	-
Total commissions and other revenues	802	83	17	564	99	-
Total non-interest revenues	802	83	17	564	99	-
Total revenues	**2,993**	**2,633**	**189**	**2,422**	**556**	-
Expenses with respect to credit losses	97	99	-	113	94	-
Operating and other expenses to externals	2,448	988	19	1,270	264	-
Operating and other expenses – inter-segment	(4)	-	(1)	(9)	-	-
Total operating and other expenses	**2,444**	**988**	**18**	**1,261**	**264**	-
Pre-tax profit (loss)	452	1,546	171	1,048	198	-
Provision for taxes on profit	153	523	58	355	67	-
After-tax profit (loss)	**299**	**1,023**	**113**	**693**	**131**	-
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	299	1,023	113	693	131	-
Net profit attributed to non-controlling interests	(110)	-	-	(10)	-	-
Net profit (loss) attributable to shareholders of the banking corporation	**189**	**1,023**	**113**	**683**	**131**	-
Average balance of assets	25,473	188,681	143	33,520	11,526	-
Of which: Investments in associated companies	-	-	-	-	-	-
Average balance of loans to the public	25,473	188,681	143	33,520	11,526	-
Balance of loans to the public at end of reported period	27,559	(3)196,717	154	35,147	12,902	-
Balance of impaired debts	55	1,329	-	822	197	-
Balance of debt in arrears 90 days or longer	44	-	-	69	-	-
Average balance of liabilities	125,472	-	23,325	54,974	14,044	-
Of which: Average balance of deposits from the public	122,240	-	23,325	54,974	14,044	-
Balance of deposits from the public at end of reported period	125,823	-	25,755	55,805	13,570	-
Average balance of risk assets(1)	23,125	108,389	66	30,550	13,610	-
Balance of risk assets at end of reported period(1)	21,520	116,855	58	33,036	14,098	-
Average balance of assets under management(2)	68,230	9,487	3,001	42,270	8,668	-
Breakdown of interest revenues, net:						-
Margin from credit granting operations	1,011	2,358	1	1,311	337	-
Margin from activities of receiving deposits	1,164	-	167	480	97	-
Other	16	192	4	67	23	-
Total interest revenues, net	**2,191**	**2,550**	**172**	**1,858**	**457**	-

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 13,797 million.

-	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
-	1,093	46	1,075	15,643	23	529	552	16,195
-	591	1,213	1,861	5,880	7	68	75	5,955
-	502	(1,167)	(786)	9,763	16	461	477	10,240
-	300	1,406	2,510	230	(4)	(226)	(230)	-
-	**802**	**239**	**1,724**	**9,993**	**12**	**235**	**247**	**10,240**
-	-	-	754	754	-	-	-	754
-	190	49	844	2,648	6	20	26	2,674
-	190	49	1,598	3,402	6	20	26	3,428
-	**992**	**288**	**3,322**	**13,395**	**18**	**255**	**273**	**13,668**
-	101	-	-	504	-	28	28	532
-	381	199	527	6,096	9	68	77	6,173
-	5	2	7	-	-	-	-	-
-	**386**	**201**	**534**	**6,096**	**9**	**68**	**77**	**6,173**
-	505	87	2,788	6,795	9	159	168	6,963
-	171	29	943	2,299	3	54	57	2,356
-	**334**	**58**	**1,845**	**4,496**	**6**	**105**	**111**	**4,607**
-	-	-	5	5	-	-	-	5
-	334	58	1,850	4,501	6	105	111	4,612
-	-	-	(20)	(140)	-	-	-	(140)
-	**334**	**58**	**1,830**	**4,361**	**6**	**105**	**111**	**4,472**
-	27,131	1,925	107,471	395,870	725	16,925	17,650	413,520
-	-	-	346	346	-	-	-	346
-	27,131	1,925	-	288,399	308	4,985	5,293	293,692
-	28,779	2,559	-	303,817	545	5,994	6,539	310,356
-	163	-	-	2,566	-	11	11	2,577
-	-	-	-	113	-	-	-	113
-	37,382	65,945	58,708	379,850	436	5,481	5,917	385,767
-	37,382	65,945	-	317,910	304	5,299	5,603	323,513
-	39,636	75,938	-	336,527	627	7,360	7,987	344,514
-	37,854	2,280	12,910	228,784	527	6,355	6,882	235,666
-	43,490	2,343	12,652	244,052	562	7,637	8,199	252,251
-	32,728	374,075	1,837	540,296	-	-	-	540,296
-								
-	602	28	-	5,648	10	155	165	5,813
-	141	197	-	2,246	1	11	12	2,258
-	59	14	1,724	2,099	1	69	70	2,169
-	**802**	**239**	**1,724**	**9,993**	**12**	**235**	**247**	**10,240**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses	-
Interest revenues from externals	1,184	6,456	2	1,415	382	-
Interest expenses from externals	696	1	192	153	58	-
Interest revenues (expenses), net from externals	488	6,455	(190)	1,262	324	-
Interest revenues (expenses), net – inter-segment	948	(4,192)	271	101	13	-
Total interest revenues (expenses), net	1,436	2,263	81	1,363	337	-
Total non-interest financing revenues	1	–	–	1	(2)	-
Total commissions and other revenues	699	143	23	543	114	-
Total non-interest revenues	700	143	23	544	112	-
Total revenues	**2,136**	**2,406**	**104**	**1,907**	**449**	-
Expenses (reduction of expenses) with respect to credit losses	(55)	(133)	(1)	(71)	22	-
Operating and other expenses to externals	2,247	835	26	1,164	220	-
Operating and other expenses – inter-segment	(42)	–	2	(24)	19	-
Total operating and other expenses	2,205	835	28	1,140	239	-
Pre-tax profit	(14)	1,704	77	838	188	-
Provision for taxes on profit	(5)	586	26	288	65	-
After-tax profit	(9)	1,118	51	550	123	-
Share of banking corporation in earnings of associated companies	–	–	–	–	–	-
Net profit before attribution to non-controlling interests	(9)	1,118	51	550	123	-
Net profit attributed to non-controlling interests	(52)	–	–	(6)	–	-
Net profit attributable to shareholders of the banking corporation	**(61)**	**1,118**	**51**	**544**	**123**	-
Average balance of assets	24,262	165,384	203	30,459	8,958	-
Of which: Investments in associated companies	–	–	–	–	–	-
Average balance of loans to the public	24,262	165,384	203	30,459	8,958	-
Balance of loans to the public at end of reported period	26,184	175,626[(3)]	141	30,744	10,066	-
Balance of impaired debts	84	36	4	704	187	-
Balance of debt in arrears 90 days or longer	25	1,264	1	26	–	-
Average balance of liabilities	120,539	–	20,947	47,118	15,525	-
Of which: Average balance of deposits from the public	117,274	–	20,947	47,118	15,525	-
Balance of deposits from the public at end of reported period	118,051	–	21,664	50,247	15,742	-
Average balance of risk assets[(1)]	22,835	96,065	98	27,504	11,927	-
Balance of risk assets at end of reported period[(1)]	23,394	101,946	75	27,368	12,936	-
Average balance of assets under management[(2)]	54,158	8,486	6,718	38,589	6,410	-
Breakdown of interest revenues, net:						-
Margin from credit granting operations	958	2,152	1	1,182	285	-
Margin from activities of receiving deposits	450	–	72	124	42	-
Other	28	111	8	57	10	-
Total interest revenues, net	1,436	2,263	81	1,363	337	-

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 16,052 million.

-	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
-	611	39	248	10,337	12	208	220	10,557
-	187	340	1,238	2,865	–	7	7	2,872
-	424	(301)	(990)	7,472	12	201	213	7,685
-	161	410	2,293	5	–	(5)	(5)	–
-	**585**	**109**	**1,303**	**7,477**	**12**	**196**	**208**	**7,685**
-	5	3	385	393	–	8	8	401
-	160	51	467	2,200	22	12	34	2,234
-	165	54	852	2,593	22	20	42	2,635
-	**750**	**163**	**2,155**	**10,070**	**34**	**216**	**250**	**10,320**
-	(7)	(32)	(1)	(278)	–	–	–	(278)
-	352	152	503	5,499	14	55	69	5,568
-	27	16	2	–	–	–	–	–
-	**379**	**168**	**505**	**5,499**	**14**	**55**	**69**	**5,568**
-	378	27	1,651	4,849	20	161	181	5,030
-	130	9	569	1,668	7	55	62	1,730
-	**248**	**18**	**1,082**	**3,181**	**13**	**106**	**119**	**3,300**
-	–	–	(10)	(10)	–	–	–	(10)
-	248	18	1,072	3,171	13	106	119	3,290
-	–	–	(44)	(102)	–	–	–	(102)
-	**248**	**18**	**1,028**	**3,069**	**13**	**106**	**119**	**3,188**
-	20,838	1,777	103,668	355,549	655	15,319	15,974	371,523
-	–	–	22	22	–	–	–	22
-	20,838	1,777	–	251,881	354	3,198	3,552	255,433
-	23,574	2,960	–	269,295	134	4,102	4,236	273,531
-	336	–	1	1,352	–	–	–	1,352
-	–	–	–	1,316	–	–	–	1,316
-	36,129	53,355	41,790	335,403	539	14,551	15,090	350,493
-	36,129	53,355	–	290,348	431	3,636	4,067	294,415
-	36,669	61,365	–	303,738	300	3,886	4,186	307,924
-	30,618	2,295	11,971	203,313	437	4,573	5,010	208,323
-	33,606	1,429	12,316	213,070	503	5,137	5,640	218,710
-	27,498	368,943	3,380	514,182	–	–	–	514,182
-								
-	490	26	–	5,094	7	114	121	5,215
-	53	62	–	803	–	8	8	811
-	42	21	1,303	1,580	5	74	79	1,659
-	**585**	**109**	**1,303**	**7,477**	**12**	**196**	**208**	**7,685**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses	
Interest revenues from externals	990	3,913	2	1,202	330	-
Interest expenses from externals	501	–	161	106	53	-
Interest revenues (expenses), net from externals	489	3,913	(159)	1,096	277	-
Interest revenues (expenses), net – inter-segment	840	(1,984)	238	92	32	-
Total interest revenues (expenses), net	**1,329**	**1,929**	**79**	**1,188**	**309**	-
Total non-interest financing revenues	8	(6)	–	–	1	-
Total commissions and other revenues	574	146	99	440	96	-
Total non-interest revenues	582	140	99	440	97	-
Total revenues	**1,911**	**2,069**	**178**	**1,628**	**406**	-
Expenses (reduction of expenses) with respect to credit losses	130	279	6	321	136	-
Operating and other expenses to externals	1,864	678	64	880	74	-
Operating and other expenses – inter-segment	(140)	–	8	(77)	62	-
Total operating and other expenses	**1,724**	**678**	**72**	**803**	**136**	-
Pre-tax profit (loss)	57	1,112	100	504	134	-
Provision (reduced provision) for taxes on profit	20	386	35	175	46	-
After-tax profit (loss)	**37**	**726**	**65**	**329**	**88**	-
Share of banking corporation in earnings of associated companies	–	–	–	–	–	-
Net profit (loss) before attribution to non-controlling interests	37	726	65	329	88	-
Net profit attributed to non-controlling interests	(47)	–	–	(5)	–	-
Net profit (loss) attributable to shareholders of the banking corporation	**(10)**	**726**	**65**	**324**	**88**	-
Average balance of assets	21,398	142,921	178	23,880	8,108	-
Of which: Investments in associated companies	–	–	–	–	–	-
Average balance of loans to the public	21,398	142,921	178	23,880	8,108	-
Balance of loans to the public at end of reported period	25,643	(3)156,364	370	29,514	9,660	-
Balance of impaired debts	96	97	–	810	239	-
Balance of debt in arrears 90 days or longer	24	1,176	–	27	–	-
Average balance of liabilities	103,115	–	17,072	34,255	10,570	-
Of which: Average balance of deposits from the public	99,635	–	17,072	34,255	10,570	-
Balance of deposits from the public at end of reported period	114,987	–	20,178	44,382	14,406	-
Average balance of risk assets(1)	20,182	82,671	70	22,792	9,192	-
Balance of risk assets at end of reported period(1)	22,432	90,918	240	27,800	11,882	-
Average balance of assets under management(2)	41,321	9,294	3,825	29,986	3,744	-
Breakdown of interest revenues, net:						-
Margin from credit granting operations	861	1,831	1	1,026	260	-
Margin from activities of receiving deposits	458	–	76	122	36	-
Other	10	98	2	40	13	-
Total interest revenues, net	**1,329**	**1,929**	**79**	**1,188**	**309**	-

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.

(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 18,555 million.

Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
575	32	235	7,279	19	230	249	7,528
186	240	424	1,671	–	37	37	1,708
389	(208)	(189)	5,608	19	193	212	5,820
172	306	322	18	–	(18)	(18)	–
561	98	133	5,626	19	175	194	5,820
(1)	1	208	211	–	10	10	221
134	56	316	1,861	21	10	31	1,892
133	57	524	2,072	21	20	41	2,113
694	**155**	**657**	**7,698**	**40**	**195**	**235**	**7,933**
138	23	1	1,034	–	16	16	1,050
151	63	416	4,190	31	58	89	4,279
88	54	5	–	–	–	–	–
239	117	421	4,190	31	58	89	4,279
317	15	235	2,474	9	121	130	2,604
110	5	81	858	3	42	45	903
207	10	154	1,616	6	79	85	1,701
–	–	1	1	–	–	–	1
207	10	155	1,617	6	79	85	1,702
–	–	(40)	(92)	–	–	–	(92)
207	**10**	**115**	**1,525**	**6**	**79**	**85**	**1,610**
19,125	1,108	69,431	286,149	849	14,782	15,631	301,780
–	–	31	31	–	–	–	31
19,125	1,108	–	216,718	458	2,842	3,300	220,018
20,169	2,434	–	244,154	323	3,481	3,804	247,958
340	118	–	1,700	–	–	–	1,700
1	–	–	1,228	–	–	–	1,228
31,004	41,903	31,298	269,217	847	13,937	14,784	284,001
31,004	41,903	–	234,439	684	4,058	4,742	239,181
38,094	47,566	–	279,613	719	3,892	4,611	284,224
25,729	2,455	8,010	171,101	403	4,141	4,544	175,645
28,781	2,367	11,291	195,711	409	4,364	4,773	200,484
19,054	357,700	2,663	467,587	–	–	–	467,587
475	26	–	4,480	10	97	107	4,587
59	66	–	817	2	8	10	827
27	6	133	329	7	70	77	406
561	98	133	5,626	19	175	194	5,820

Note 29 – Operating Segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	9,361	42	1,498	10,901	-	3	3	10,904
Interest expenses from externals	-	-	1,228	1,228	-	386	386	1,614
Interest revenues (expenses), net from externals	9,361	42	270	9,673	-	(383)	(383)	9,290
Interest revenues (expenses), net – inter-segment	(6,811)	(8)	1,887	(4,932)	-	555	555	(4,377)
Total interest revenues, net	**2,550**	**34**	**2,157**	**4,741**	**-**	**172**	**172**	**4,913**
Total non-interest financing revenues	-	-	-	-	-	-	-	-
Total commissions and other revenues	83	213	589	885	1	16	17	902
Total non-interest revenues	83	213	589	885	1	16	17	902
Total revenues	**2,633**	**247**	**2,746**	**5,626**	**1**	**188**	**189**	**5,815**
Expenses with respect to credit losses	99	8	89	196	-	-	-	196
Operating and other expenses to externals	988	65	2,383	3,436	-	19	19	3,455
Operating and other expenses – inter-segment	-	(1)	(3)	(4)	-	(1)	(1)	(5)
Total operating and other expenses	**988**	**64**	**2,380**	**3,432**	**-**	**18**	**18**	**3,450**
Pre-tax profit (loss)	1,546	175	277	1,998	1	170	171	2,169
Provision for taxes on profit	523	59	94	676	-	58	58	734
After-tax profit (loss)	**1,023**	**116**	**183**	**1,322**	**1**	**112**	**113**	**1,435**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	1,023	116	183	1,322	1	112	113	1,435
Net profit attributed to non-controlling interests	-	(6)	(104)	(110)	-	-	-	(110)
Net profit (loss) attributable to shareholders of the banking corporation	**1,023**	**110**	**79**	**1,212**	**1**	**112**	**113**	**1,325**
Average balance of assets	188,681	3,232	22,241	214,154	22	119	143	214,297
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	188,681	3,232	22,241	214,154	22	119	143	214,297
Balance of loans to the public at end of reported period	196,717	4,622	22,937	224,276	26	128	154	224,430
Balance of impaired debts	1,329	-	55	1,384	-	-	-	1,384
Balance of debt in arrears 90 days or longer	-	-	44	44	-	-	-	44
Average balance of liabilities	-	3,232	122,240	125,472	-	23,325	23,325	148,797
Of which: Average balance of deposits from the public	-	-	122,240	122,240	-	23,325	23,325	145,565
Balance of deposits from the public at end of reported period	-	-	125,823	125,823	-	25,755	25,755	151,578
Average balance of risk assets	108,389	4,204	18,921	131,514	7	59	66	131,580
Balance of risk assets at end of reported period	116,855	4,123	17,397	138,375	7	51	58	138,433
Average balance of assets under management	9,487	-	68,230	77,717	-	3,001	3,001	80,718
Breakdown of interest revenues, net:								
Margin from credit granting operations	2,358	34	977	3,369	-	1	1	3,370
Margin from activities of receiving deposits	-	-	1,164	1,164	-	167	167	1,331
Other	192	-	16	208	-	4	4	212
Total interest revenues, net	**2,550**	**34**	**2,157**	**4,741**	**-**	**172**	**172**	**4,913**

Note 29 – Operating Segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	6,456	36	1,148	7,640	–	2	2	7,642
Interest expenses from externals	1	–	696	697	–	192	192	889
Interest revenues (expenses), net from externals	6,455	36	452	6,943	–	(190)	(190)	6,753
Interest revenues (expenses), net – inter-segment	(4,192)	(5)	953	(3,244)	–	271	271	(2,973)
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**–**	**81**	**81**	**3,780**
Total non-interest financing revenues	–	–	1	1	–	–	–	1
Total commissions and other revenues	143	179	520	842	1	22	23	865
Total non-interest revenues	143	179	521	843	1	22	23	866
Total revenues	**2,406**	**210**	**1,926**	**4,542**	**1**	**103**	**104**	**4,646**
Expenses with respect to credit losses	(133)	–	(55)	(188)	–	(1)	(1)	(189)
Operating and other expenses to externals	835	70	2,177	3,082	1	25	26	3,108
Operating and other expenses – inter-segment	–	(4)	(38)	(42)	–	2	2	(40)
Total operating and other expenses	**835**	**66**	**2,139**	**3,040**	**1**	**27**	**28**	**3,068**
Pre-tax profit	1,704	144	(158)	1,690	–	77	77	1,767
Provision for taxes on profit	586	50	(55)	581	–	26	26	607
After-tax profit	**1,118**	**94**	**(103)**	**1,109**	**–**	**51**	**51**	**1,160**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	1,118	94	(103)	1,109	–	51	51	1,160
Net profit attributed to non-controlling interests	**–**	**(5)**	**(47)**	**(52)**	**–**	**–**	**–**	**(52)**
Net profit (loss) attributable to shareholders of the banking corporation	**1,118**	**89**	**(150)**	**1,057**	**–**	**51**	**51**	**1,108**
Average balance of assets	165,384	3,265	20,997	189,646	15	188	203	189,849
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	165,384	3,265	20,997	189,646	15	188	203	189,849
Balance of loans to the public at end of reported period	175,626	4,631	21,553	201,810	22	119	141	201,951
Balance of impaired debts	36	–	84	120	–	4	4	124
Balance of debt in arrears 90 days or longer	1,264	–	25	1,289	–	1	1	1,290
Average balance of liabilities	–	3,265	117,274	120,539	–	20,947	20,947	141,486
Of which: Average balance of deposits from the public	–	–	117,274	117,274	–	20,947	20,947	138,221
Balance of deposits from the public at end of reported period	–	–	118,051	118,051	–	21,664	21,664	139,715
Average balance of risk assets	96,065	4,133	18,702	118,900	7	91	98	118,998
Balance of risk assets at end of reported period	101,946	4,085	19,309	125,340	7	68	75	125,415
Average balance of assets under management	8,486	–	54,158	62,644	–	6,718	6,718	69,362
Breakdown of interest revenues, net:					0	0	0	0
Margin from credit granting operations	2,152	30	928	3,110	–	1	1	3,111
Margin from activities of receiving deposits	–	–	450	450	–	72	72	522
Other	111	1	27	139	–	8	8	147
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**–**	**81**	**81**	**3,780**

Note 29 – Operating Segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel
For the year ended December 31, 2020
Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	3,913	37	953	4,903	–	2	2	4,905
Interest expenses from externals	–	–	501	501	–	161	161	662
Interest revenues (expenses), net from externals	3,913	37	452	4,402	–	(159)	(159)	4,243
Interest revenues (expenses), net – inter-segment	(1,984)	(6)	846	(1,144)	–	238	238	(906)
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**–**	**79**	**79**	**3,337**
Total non-interest financing revenues	(6)	–	8	2	–	–	–	2
Total commissions and other revenues	146	144	430	720	1	98	99	819
Total non-interest revenues	140	144	438	722	1	98	99	821
Total revenues	**2,069**	**175**	**1,736**	**3,980**	**1**	**177**	**178**	**4,158**
Expenses with respect to credit losses	279	–	130	409	–	6	6	415
Operating and other expenses to externals	678	65	1,799	2,542	2	62	64	2,606
Operating and other expenses – inter-segment	–	(13)	(127)	(140)	–	8	8	(132)
Total operating and other expenses	**678**	**52**	**1,672**	**2,402**	**2**	**70**	**72**	**2,474**
Pre-tax profit (loss)	1,112	123	(66)	1,169	(1)	101	100	1,269
Provision for taxes on profit	386	43	(23)	406	–	35	35	441
After-tax profit (loss)	**726**	**80**	**(43)**	**763**	**(1)**	**66**	**65**	**828**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	726	80	(43)	763	(1)	66	65	828
Net profit attributed to non-controlling interests	–	(3)	(44)	(47)	–	–	–	(47)
Net profit (loss) attributable to shareholders of the banking corporation	**726**	**77**	**(87)**	**716**	**(1)**	**66**	**65**	**781**
Average balance of assets	142,921	3,480	17,918	164,319	12	166	178	164,497
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	142,921	3,480	17,918	164,319	12	166	178	164,497
Balance of loans to the public at end of reported period	156,364	4,244	21,399	182,007	18	352	370	182,377
Balance of impaired debts	97	–	96	193	–	–	–	193
Balance of debt in arrears 90 days or longer	1,176	–	24	1,200	–	–	–	1,200
Average balance of liabilities	–	3,480	99,635	103,115	–	17,072	17,072	120,187
Of which: Average balance of deposits from the public	–	–	99,635	99,635	–	17,072	17,072	116,707
Balance of deposits from the public at end of reported period	–	–	114,987	114,987	–	20,178	20,178	135,165
Average balance of risk assets	82,671	3,408	16,774	102,853	7	63	70	102,923
Balance of risk assets at end of reported period	90,918	3,920	18,512	113,350	7	233	240	113,590
Average balance of assets under management	9,294	–	41,321	50,615	–	3,825	3,825	54,440
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,831	30	831	2,692	–	1	1	2,693
Margin from activities of receiving deposits	–	–	458	458	–	76	76	534
Other	98	1	9	108	–	2	2	110
Total interest revenues, net	**1,929**	**31**	**1,298**	**3,258**	**–**	**79**	**79**	**3,337**

Note 29 – Operating Segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2022
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	661	1,291	1,952	176	397	573	677	416	1,093
Interest expenses from externals	71	382	453	15	133	148	72	519	591
Interest revenues, net from externals	590	909	1,499	161	264	425	605	(103)	502
Interest revenues (expenses), net – inter-segment	(61)	420	359	(37)	69	32	(134)	434	300
Total interest revenues, net	**529**	**1,329**	**1,858**	**124**	**333**	**457**	**471**	**331**	**802**
Non-interest financing revenues (expenses)	-	-	-	-	-	-	-	-	-
Total commissions and other revenues	96	468	564	32	67	99	111	79	190
Total non-interest revenues	96	468	564	32	67	99	111	79	190
Total revenues	**625**	**1,797**	**2,422**	**156**	**400**	**556**	**582**	**410**	**992**
Expenses (reduction of expenses) with respect to credit losses	60	53	113	11	83	94	90	11	101
Operating and other expenses to externals	-	1,270	1,270	-	264	264	5	376	381
Operating and other expenses – inter-segment	-	(9)	(9)	-	-	-	5	-	5
Total operating and other expenses	**-**	**1,261**	**1,261**	**-**	**264**	**264**	**10**	**376**	**386**
Pre-tax profit	565	483	1,048	145	53	198	482	23	505
Provision for taxes on profit	191	164	355	49	18	67	163	8	171
After-tax profit	**374**	**319**	**693**	**96**	**35**	**131**	**319**	**15**	**334**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	374	319	693	96	35	131	319	15	334
Net profit attributed to non-controlling interests	-	(10)	(10)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**374**	**309**	**683**	**96**	**35**	**131**	**319**	**15**	**334**
Average balance of assets	11,988	21,532	33,520	3,467	8,059	11,526	15,528	11,603	27,131
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	11,988	21,532	33,520	3,467	8,059	11,526	15,528	11,603	27,131
Balance of loans to the public at end of reported period	13,057	22,090	35,147	3,522	9,380	12,902	23,581	5,198	28,779
Balance of impaired debts	17	805	822	33	164	197	6	157	163
Balance of debt in arrears 90 days or longer	22	47	69	-	-	-	-	-	-
Average balance of liabilities	11,053	43,921	54,974	2,575	11,469	14,044	8,570	28,812	37,382
Of which: Average balance of deposits from the public	11,053	43,921	54,974	2,575	11,469	14,044	8,570	28,812	37,382
Balance of deposits from the public at end of reported period	11,395	44,410	55,805	2,269	11,301	13,570	8,583	31,053	39,636
Average balance of risk assets	12,090	18,460	30,550	4,441	9,169	13,610	24,562	13,292	37,854
Balance of risk assets at end of reported period	13,825	19,211	33,036	4,736	9,362	14,098	27,348	16,142	43,490
Average balance of assets under management	4,212	38,058	42,270	1,855	6,813	8,668	8,216	24,512	32,728
Breakdown of interest revenues, net:									
Margin from credit granting operations	405	906	1,311	101	236	337	387	215	602
Margin from activities of receiving deposits	100	380	480	16	81	97	39	102	141
Other	24	43	67	7	16	23	45	14	59
Total interest revenues, net	**529**	**1,329**	**1,858**	**124**	**333**	**457**	**471**	**331**	**802**

Note 29 – Operating Segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	415	1,000	1,415	81	301	382	368	243	611
Interest expenses from externals	22	131	153	6	52	58	10	177	187
Interest revenues (expenses), net from externals	393	869	1,262	75	249	324	358	66	424
Interest revenues (expenses), net – inter-segment	(31)	132	101	(5)	18	13	(40)	201	161
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**
Total non-interest financing revenues	–	1	1	–	(2)	(2)	–	5	5
Total commissions and other revenues	76	467	543	26	88	114	94	66	160
Total non-interest revenues	76	468	544	26	86	112	94	71	165
Total revenues	**438**	**1,469**	**1,907**	**96**	**353**	**449**	**412**	**338**	**750**
Expenses (reduction of expenses) with respect to credit losses	9	(80)	(71)	(1)	23	22	32	(39)	(7)
Operating and other expenses to externals	124	1,040	1,164	27	193	220	90	262	352
Operating and other expenses – inter-segment	(2)	(22)	(24)	2	17	19	5	22	27
Total operating and other expenses	**122**	**1,018**	**1,140**	**29**	**210**	**239**	**95**	**284**	**379**
Pre-tax profit	307	531	838	68	120	188	285	93	378
Provision for taxes on profit	106	182	288	24	41	65	98	32	130
After-tax profit	**201**	**349**	**550**	**44**	**79**	**123**	**187**	**61**	**248**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	201	349	550	44	79	123	187	61	248
Net profit attributed to non-controlling interests	–	(6)	(6)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**201**	**343**	**544**	**44**	**79**	**123**	**187**	**61**	**248**
Average balance of assets	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Balance of loans to the public at end of reported period	9,401	21,343	30,744	3,107	6,959	10,066	12,465	11,109	23,574
Balance of impaired debts	202	502	704	13	174	187	56	280	336
Balance of debt in arrears 90 days or longer	10	16	26	–	–	–	–	–	–
Average balance of liabilities	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Of which: Average balance of deposits from the public	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Balance of deposits from the public at end of reported period	9,645	40,602	50,247	3,071	12,671	15,742	8,833	27,836	36,669
Average balance of risk assets	9,725	17,779	27,504	3,878	8,049	11,927	18,273	12,345	30,618
Balance of risk assets at end of reported period	10,071	17,297	27,368	4,163	8,773	12,936	21,617	11,989	33,606
Average balance of assets under management	4,033	34,556	38,589	999	5,411	6,410	5,527	21,971	27,498
Breakdown of interest revenues, net:									
Margin from credit granting operations	333	849	1,182	55	230	285	305	185	490
Margin from activities of receiving deposits	17	107	124	14	28	42	–	53	53
Other	12	45	57	1	9	10	13	29	42
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**

Note 29 – Operating Segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2020
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	354	848	1,202	101	229	330	336	239	575
Interest expenses from externals	17	89	106	7	46	53	13	173	186
Interest revenues, net from externals	337	759	1,096	94	183	277	323	66	389
Interest revenues (expenses), net – inter-segment	(17)	109	92	(6)	38	32	(33)	205	172
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**
Total non-interest financing revenues	–	–	–	–	1	1	–	(1)	(1)
Total commissions and other revenues	60	380	440	29	67	96	76	58	134
Total non-interest revenues	60	380	440	29	68	97	76	57	133
Total revenues	**380**	**1,248**	**1,628**	**117**	**289**	**406**	**366**	**328**	**694**
Expenses (reduction of expenses) with respect to credit losses	46	275	321	6	130	136	(3)	141	138
Operating and other expenses to externals	72	808	880	11	63	74	44	107	151
Operating and other expenses – inter-segment	(6)	(71)	(77)	5	57	62	16	72	88
Total operating and other expenses	**66**	**737**	**803**	**16**	**120**	**136**	**60**	**179**	**239**
Pre-tax profit	268	236	504	95	39	134	309	8	317
Provision for taxes on profit	93	82	175	33	13	46	107	3	110
After-tax profit	**175**	**154**	**329**	**62**	**26**	**88**	**202**	**5**	**207**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	175	154	329	62	26	88	202	5	207
Net profit attributed to non-controlling interests	–	(5)	(5)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**175**	**149**	**324**	**62**	**26**	**88**	**202**	**5**	**207**
Average balance of assets	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	6,758	17,122	23,880	2,748	5,360	8,108	8,244	10,881	19,125
Balance of loans to the public at end of reported period	8,792	20,722	29,514	3,363	6,297	9,660	8,233	11,936	20,169
Balance of impaired debts	188	622	810	36	203	239	8	332	340
Balance of debt in arrears 90 days or longer	4	23	27	–	–	–	–	1	1
Average balance of liabilities	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Of which: Average balance of deposits from the public	6,139	28,116	34,255	2,630	7,940	10,570	5,837	25,167	31,004
Balance of deposits from the public at end of reported period	7,874	36,508	44,382	3,287	11,119	14,406	7,269	30,825	38,094
Average balance of risk assets	8,051	14,741	22,792	3,440	5,752	9,192	15,386	10,343	25,729
Balance of risk assets at end of reported period	9,222	18,578	27,800	4,344	7,538	11,882	15,729	13,052	28,781
Average balance of assets under management	3,725	26,261	29,986	871	2,873	3,744	4,656	14,398	19,054
Breakdown of interest revenues, net:									
Margin from credit granting operations	289	737	1,026	76	184	260	267	208	475
Margin from activities of receiving deposits	20	102	122	8	28	36	9	50	59
Other	11	29	40	4	9	13	14	13	27
Total interest revenues, net	**320**	**868**	**1,188**	**88**	**221**	**309**	**290**	**271**	**561**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	25	1,050	-	-	1,075
Interest expenses from externals	-	1,861	-	-	1,861
Interest revenues (expenses), net from externals	25	(811)	-	-	(786)
Interest revenues (expenses), net – inter-segment	(5)	2,515	-	-	2,510
Interest revenues, net	**20**	**1,704**	**-**	**-**	**1,724**
Non-interest revenues from externals – financing	345	450	(49)	8	754
Non-interest revenues from externals – operating	113	-	-	731	844
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	458	450	(49)	739	1,598
Total revenues	**478**	**2,154**	**(49)**	**739**	**3,322**
Expenses with respect to credit losses	-	-	-	-	-
Operating and other expenses from externals	1	-	-	526	527
Operating and other expenses – inter-segment	1	-	-	6	7
Total operating and other expenses	**2**	**-**	**-**	**532**	**534**
Pre-tax profit (loss)	476	2,154	(49)	207	2,788
Provision (reduced provision) for taxes on profit	161	729	(17)	70	943
After-tax profit (loss)	**315**	**1,425**	**(32)**	**137**	**1,845**
Share of banking corporation in earnings of associated companies	-	-	-	5	5
Net profit (loss) before attribution to non-controlling interests	315	1,425	(32)	142	1,850
Net profit attributed to non-controlling interests	-	-	-	(20)	(20)
Net profit (loss) attributable to share holders of the banking corporation	**315**	**1,425**	**(32)**	**122**	**1,830**
Average balance of assets	214	92,452	346	14,459	107,471
Includes: Investments in associated companies	-	-	346	-	346
Average balance of liabilities	-	16,444	-	42,264	58,708
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	2,005	1,997	797	8,111	12,910
Balance of risk assets at end of reported period	1,354	1,837	640	8,821	12,652
Average balance of assets under management	-	2,125	-	(288)	1,837
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	143	34	-	-	-
CPI differentials, net	9	1,135	-	-	-
Interest exposure, net	121	857	-	-	-
Equity exposure, net	9	-	-	-	-
Interest spreads attributable to financial management	-	77	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	282	2,103	-	-	-
Gains or losses from sale or other then temporary impairment of bonds	-	(201)	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	242	-	-	-
Other non-interest revenues	196	10	-	-	-
Total net interest revenues and non-interest revenues	**478**	**2,154**	**-**	**-**	**-**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	14	234	–	–	248
Interest expenses from externals	–	1,238	–	–	1,238
Interest revenues (expenses), net from externals	14	(1,004)	–	–	(990)
Interest revenues (expenses), net – inter-segment	6	2,287	–	–	2,293
Interest expenses, net	**20**	**1,283**	**–**	**–**	**1,303**
Non-interest revenues from externals – financing	90	238	57	–	385
Non-interest revenues from externals – operating	108	–	–	359	467
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	198	238	57	359	852
Total revenues	**218**	**1,521**	**57**	**359**	**2,155**
Reduced expenses with respect to credit losses	–	–	–	(1)	(1)
Operating and other expenses from externals	124	67	–	312	503
Operating and other expenses – inter-segment	–	–	–	2	2
Total operating and other expenses	**124**	**67**	**–**	**314**	**505**
Pre-tax profit (loss)	94	1,454	57	46	1,651
Provision (reduced provision) for taxes on profit	32	501	20	16	569
After-tax profit (loss)	**62**	**953**	**37**	**30**	**1,082**
Share of banking corporation in earnings of associated companies	–	–	–	(10)	(10)
Net profit (loss) before attribution to non-controlling interests	62	953	37	20	1,072
Net profit attributed to non-controlling interests	–	–	–	(44)	(44)
Net profit (loss) attributable to share holders of the banking corporation	**62**	**953**	**37**	**(24)**	**1,028**
Average balance of assets	126	103,342	200	–	103,668
Includes: Investments in associated companies	–	–	22	–	22
Average balance of liabilities	–	41,790	–	–	41,790
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	2,551	2,095	795	6,530	11,971
Balance of risk assets at end of reported period	2,440	2,121	884	6,871	12,316
Average balance of assets under management	–	–	–	3,380	3,380
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	15	(7)	–	–	–
CPI differentials, net	(1)	441	–	–	–
Interest exposure, net	33	830	–	–	–
Equity exposure, net	5	–	–	–	–
Interest spreads attributable to financial management	–	22	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	52	1,286	–	–	–
Gains or losses from sale or other then temporary impairment of bonds	–	51	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	–	100	–	–	–
Other non-interest revenues	166	84	–	–	–
Total net interest revenues and non-interest revenues	218	1,521	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	10	225	–	–	235
Interest expenses from externals	–	424	–	–	424
Interest revenues (expenses), net from externals	10	(199)	–	–	(189)
Interest revenues (expenses), net – inter-segment	(2)	324	–	–	322
Interest revenues (expenses), net	**8**	**125**	**–**	**–**	**133**
Non-interest revenues from externals – financing	121	62	25	–	208
Non-interest revenues from externals – operating	113	–	–	203	316
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	234	62	25	203	524
Total revenues	**242**	**187**	**25**	**203**	**657**
Expenses with respect to credit losses	–	–	–	1	1
Operating and other expenses from externals	134	72	–	210	416
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**134**	**72**	**–**	**215**	**421**
Pre-tax profit (loss)	108	115	25	(13)	235
Provision for taxes on profit	37	40	9	(5)	81
After-tax profit (loss)	**71**	**75**	**16**	**(8)**	**154**
Share of banking corporation in earnings of associated companies	–	–	–	1	1
Net profit (loss) before attribution to non-controlling interests	71	75	16	(7)	155
Net profit attributed to non-controlling interests	–	–	–	(40)	(40)
Net profit (loss) attributable to share holders of the banking corporation	**71**	**75**	**16**	**(47)**	**115**
Average balance of assets	76	69,200	155	–	69,431
Includes: Investments in associated companies	–	–	31	–	31
Average balance of liabilities	–	31,298	–	–	31,298
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,973	962	285	4,790	8,010
Balance of risk assets at end of reported period	2,389	1,883	576	6,443	11,291
Average balance of assets under management	–	–	–	2,663	2,663
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	9	(29)	–	–	–
CPI differentials, net	5	(110)	–	–	–
Interest exposure, net	58	70	–	–	–
Equity exposure, net	1	–	–	–	–
Interest spreads attributable to financial management	–	57	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	73	(12)	–	–	–
Gains or losses from sale or other then temporary impairment of bonds	–	124	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	–	49	–	–	–
Other non-interest revenues	169	26	–	–	–
Total net interest revenues and non-interest revenues	242	187	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues[1]			Net profit attributable to shareholders of the banking corporation			Total assets	
	For the year ended December 31							
	2022	2021	2020	2022	2021	2020	2022	2021
Israel	13,165	10,065	7,680	4,361	3,069	1,525	402,949	379,955
Switzerland	-	16	24	-	14	-	425	372
Other – outside of Israel	503	239	229	111	105	85	24,918	11,944
Total outside Israel	503	255	253	111	119	85	25,343	12,316
Total consolidated	**13,668**	**10,320**	**7,933**	**4,472**	**3,188**	**1,610**	**428,292**	**392,271**

(1) Revenues – net interest revenues and non-interest revenues.

C. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by customercharacteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted through Bank branches, the trading room, the business centers, headquarters units of the Bank and Bank subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments".

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division. This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business customers (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). Occasionally, due to growth in activity of a customer served by the Retail Division, the customermay exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division[1]. Private banking sector customers are individual customers with liquid assets (primarily short-term deposits and investments in securities) over NIS 1 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business customers with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

Business banking – the Major Corporations sector in the Corporate Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The Finance Division is responsible for this segment, except for investments in non-banking corporations, for which the Corporate Division is responsible.

The major products and guidelines for attribution of balances, revenues and expenses to customers in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. Therefore, the statement of profit and loss for 2021 and for the fourth quarter of 2020 and the Bank's consolidated balance sheet as of December 31, 2021 and December 31, 2020 include the financial statements of Union Bank.

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	490	8,719	(58)	887	307	784	(889)	10,240
Inter-segment	2,194	(6,566)	119	578	78	876	2,721	–
Total interest revenues, net	**2,684**	**2,153**	**61**	**1,465**	**385**	**1,660**	**1,832**	**10,240**
Non-interest financing revenues	57	1	1	2	1	121	571	754
Commissions and other revenues	747	150	16	478	86	361	836	2,674
Total revenues	**3,488**	**2,304**	**78**	**1,945**	**472**	**2,142**	**3,239**	**13,668**
Expenses with respect to credit losses	100	94	1	109	93	135	–	532
Operating and other expenses	2,544	951	27	1,107	313	692	539	6,173
Pre-tax profit	844	1,259	50	729	66	1,315	2,700	6,963
Provision for taxes on profit	286	426	17	247	22	445	913	2,356
After-tax profit	**558**	**833**	**33**	**482**	**44**	**870**	**1,787**	**4,607**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	5	5
Net profit:								
Before attribution to non-controlling interests	558	833	33	482	44	870	1,792	4,612
Attributable to non-controlling interests	(110)	–	–	(10)	–	–	(20)	(140)
Net profit attributable to shareholders of the Bank	**448**	**833**	**33**	**472**	**44**	**870**	**1,772**	**4,472**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	17.6%	8.2%	–	25.7%	4.2%	14.5%	–	20.0%
Average balance of loans to the public, net	33,763	178,602	480	22,478	9,313	46,726	–	291,362
Average balance of deposits from the public	145,190	–	7,026	46,911	14,693	95,179	14,514	323,513
Average balance of assets	34,589	179,349	1,042	22,583	9,399	67,567	98,991	413,520
Average balance of risk assets(2)	30,188	101,626	133	18,671	10,585	59,487	14,976	235,666

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	747	5,952	(30)	923	273	990	(1,170)	7,685
Inter-segment	1,078	(4,029)	74	202	15	114	2,546	–
Total interest revenues, net	**1,825**	**1,923**	**44**	**1,125**	**288**	**1,104**	**1,376**	**7,685**
Non-interest financing revenues	79	1	1	3	(1)	57	261	401
Commissions and other revenues	723	147	23	454	86	318	483	2,234
Total revenues	**2,627**	**2,071**	**68**	**1,582**	**373**	**1,479**	**2,120**	**10,320**
Expenses (reduction of expenses) with respect to credit losses	(76)	(130)	(5)	(93)	24	11	(9)	(278)
Operating and other expenses	2,283	801	31	988	283	658	524	5,568
Pre-tax profit	420	1,400	42	687	66	810	1,605	5,030
Provision for taxes on profit	144	482	14	236	23	279	552	1,730
After-tax profit	**276**	**918**	**28**	**451**	**43**	**531**	**1,053**	**3,300**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	(10)	(10)
Net profit:	–	–	–	–	–	–	–	–
Before attribution to non-controlling interests	276	918	28	451	43	531	1,043	3,290
Attributable to non-controlling interests	(52)	–	–	(6)	–	–	(44)	(102)
Net profit attributable to shareholders of the Bank	**224**	**918**	**28**	**445**	**43**	**531**	**999**	**3,188**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	9.4%	10.0%	–	23.3%	4.8%	10.9%	–	15.8%
Average balance of loans to the public, net	31,808	157,145	421	22,668	7,631	33,509	–	253,182
Average balance of deposits from the public	135,541	–	7,645	42,268	13,515	79,845	15,601	294,415
Average balance of assets	32,038	156,125	505	22,771	7,652	45,748	106,684	371,523
Average balance of risk assets[(2)]	28,278	90,985	238	19,220	8,896	48,462	12,244	208,323

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2020

Reported amounts (NIS in millions)

	House-holds – other	House-holds – mort-gages	Private banking	Small busin-esses	Com-mercial banking	Busi-ness ban-king	Finan-cial mana-gement	Total conso-lidated
Interest revenues (expenses), net								
From externals	661	3,582	(25)	806	227	879	(310)	5,820
Inter-segment	990	(1,916)	96	149	31	130	520	–
Total interest revenues, net	**1,651**	**1,666**	**71**	**955**	**258**	**1,009**	**210**	**5,820**
Non-interest financing revenues	7	–	2	2	1	54	155	221
Commissions and other revenues	577	156	135	353	65	284	322	1,892
Total revenues	**2,235**	**1,822**	**208**	**1,310**	**324**	**1,347**	**687**	**7,933**
Expenses with respect to credit losses	144	264	5	260	75	299	3	1,050
Operating and other expenses	1,792	647	100	685	177	469	409	4,279
Pre-tax profit (loss)	299	911	103	365	72	579	275	2,604
Provision (reduced provision) for taxes on profit	104	316	36	127	25	201	94	903
After-tax profit (loss)	**195**	**595**	**67**	**238**	**47**	**378**	**181**	**1,701**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	195	595	67	238	47	378	182	1,702
Attributable to non-controlling interests	(47)	–	–	(5)	–	–	(40)	(92)
Net profit (loss) attributable to shareholders of the Bank	**148**	**595**	**67**	**233**	**47**	**378**	**142**	**1,610**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	7.5%	7.5%	–	15.8%	6.6%	9.1%	19.9%	9.5%
Average balance of loans to the public, net	27,237	136,308	1,000	16,922	6,493	30,123	–	218,083
Average balance of deposits from the public	110,221	–	11,467	30,259	10,358	63,129	13,747	239,181
Average balance of assets	27,886	136,978	1,469	17,164	6,595	41,287	70,401	301,780
Average balance of risk assets[(2)]	24,034	79,074	596	14,932	7,086	41,399	8,524	175,645

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the year ended December 31, 2022					
	Provision for credit losses					
	Loans to the public					
	Com-mercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses[1]	275	(32)	149	392	–	392
Expenses with respect to credit losses	336	99	97	532	–	532
Accounting write-offs[2]	(330)	–	(189)	(519)	–	(519)
Collection of debts written off for accounting purposes in previous years[2]	128	–	122	250	–	250
Net accounting write-offs	(202)	–	(67)	(269)	–	(269)
Other[3]	25	31	79	135	–	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**
Of which: With respect to off balance sheet credit instruments	**199**	**5**	**16**	**220**	**–**	**220**

	For the year ended December 31, 2021					
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs[2]	(241)	(10)	(143)	(394)	–	(394)
Collection of debts written off for accounting purposes in previous years[2]	165	3	98	266	–	266
Net accounting write-offs	(76)	(7)	(45)	(128)	–	(128)
Other[3]	37	2	15	54	–	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**–**	**16**	**211**	**–**	**211**

	For the year ended December 31, 2020					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	634	279	136	1,049	1	1,050
Accounting write-offs[1]	(304)	(12)	(153)	(469)	–	(469)
Collection of debts written off for accounting purposes in previous years[2]	119	1	76	196	–	196
Net accounting write-offs	(185)	(11)	(77)	(273)	–	(273)
Other[3]	69	–	8	77	–	77
Balance of provision for credit losses at end of period	**1,383**	**942**	**340**	**2,665**	**2**	**2,667**
Of which: With respect to off balance sheet credit instruments	**208**	**–**	**24**	**232**	**–**	**232**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

(3) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Debts, bonds held to maturity and available for sale, loans to the public and balance of provision for credit losses

	December 31, 2022					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Recorded debt balance[1]						
reviewed on individual basis	73,817	–	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	–	236,132
Total debts	**86,977**	**[2]196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	1,106	–	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	–	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**

	December 31, 2021					
Recorded debt balance[1]						
reviewed on individual basis	63,761	36	564	64,361	23,888	88,249
reviewed on group basis	9,162	175,722	24,286	209,170	–	209,170
Total debts	**72,923**	**[2]175,758**	**24,850**	**273,531**	**23,888**	**297,419**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	959	1	21	981	1	982
reviewed on group basis	102	803	217	1,122	–	1,122
Total provision for credit losses	**1,061**	**804**	**238**	**2,103**	**1**	**2,104**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 12,566 million (as of December 31, 2021 – NIS 11,145 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears

	December 31, 2022					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non -accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	25,416	343	159	25,918	20	54
Construction and real estate – real estate operations	7,091	58	99	7,248	2	13
Financial services	9,224	2	20	9,246	-	2
Commercial – other	38,022	774	904	39,700	47	118
Total commercial	**79,753**	**1,177**	**1,182**	**82,112**	**69**	**187**
Private individuals – residential mortgages	195,374	-	1,329	196,703	-	1,054
Private individuals – other	26,313	167	55	26,535	44	103
Total loans to the public – activity in Israel	**301,440**	**1,344**	**2,566**	**305,350**	**113**	**1,344**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,616	-	-	2,616	-	-
Commercial – other	2,210	28	11	2,249	-	-
Total commercial	**4,826**	**28**	**11**	**4,865**	**-**	**-**
Private individuals	141	-	-	141	-	-
Total loans to the public – activity overseas	**4,967**	**28**	**11**	**5,006**	**-**	**-**
Total loans to the public	**306,407**	**1,372**	**2,577**	**310,356**	**113**	**1,344**

(1) Loans to the public – non-accruing, inferior or under special supervision
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 105 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,352 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears – continued

	December 31, 2021 [5]					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	19,580	124	177	19,881	9	23
Construction and real estate – real estate operations	6,116	28	84	6,228	1	9
Financial services	8,101	35	7	8,143	–	1
Commercial – other	34,101	513	919	35,533	16	108
Total commercial	**67,898**	**700**	**1,187**	**69,785**	**26**	**141**
Private individuals – residential mortgages	174,299	1,300	–	175,599	1,300	519
Private individuals – other	24,649	137	56	24,842	26	79
Total public – activity in Israel	**266,846**	**2,137**	**1,243**	**270,226**	**1,352**	**739**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,196	1	–	2,197	–	–
Commercial – other	902	33	6	941	–	–
Total commercial	**3,098**	**34**	**6**	**3,138**	**–**	**–**
Private individuals	167	–	–	167	–	–
Total public – activity overseas	**3,265**	**34**	**6**	**3,305**	**–**	**–**
Total public	**270,111**	**2,171**	**1,249**	**273,531**	**1,352**	**739**

(1) Loans to the public – non-accruing, inferior or under special supervision
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 49 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,699 million, extended to certain purchase groups which are in the process of construction.
(5) Re-classified in conformity with new disclosure format for non-accruing debts, in lieu of disclosure for impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.B. Credit quality by year when credit was extended

									December 31, 2022
	Recorded debt balance of term loans to the public								
	2022	2021	2020	2019	2018	Previously	Recorded debt balance of renewable loans	Recorded debt balance of renewable loans converted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**19,218**	**7,551**	**1,937**	**1,018**	**637**	**319**	**1,855**	**631**	**33,166**
Credit at performing credit rating	18,677	7,230	1,773	888	482	265	1,720	602	31,637
Credit other than at performing credit rating and non-problematic	406	237	63	59	36	27	25	17	870
Accruing problematic credit	85	52	72	44	109	1	27	11	401
Non-accruing credit	50	32	29	27	10	26	83	1	258
Commercial, other – total	**15,621**	**6,153**	**5,438**	**1,727**	**1,386**	**1,533**	**16,760**	**328**	**48,946**
Credit at performing credit rating	14,567	5,304	5,064	1,624	1,297	1,435	15,965	301	45,557
Credit other than at performing credit rating and non-problematic	379	659	118	18	16	16	480	3	1,689
Accruing problematic credit	241	58	105	21	15	12	315	9	776
Non-accruing credit	434	132	151	64	58	70	-	15	924
Individuals – residential mortgages – total	**36,595**	**35,002**	**22,114**	**18,776**	**15,112**	**69,104**	**-**	**-**	**196,703**
LTV up to 60%	19,355	19,412	12,970	11,668	9,908	49,990	-	-	123,303
LTV from 60% to 75%	17,000	15,316	9,011	6,916	5,100	17,395	-	-	70,738
LTV over 75%	240	274	133	192	104	1,719	-	-	2,662
Credit at performing credit rating, not in arrears	36,404	34,658	21,713	18,374	14,663	67,688	-	-	193,500
Credit not at performing credit rating, not in arrears	65	130	124	103	107	291	-	-	820
In arrears 30-89 days	98	150	182	111	156	357	-	-	1,054
Non-accruing credit	28	64	95	188	186	768	-	-	1,329
Individuals, other – total	**9,136**	**4,490**	**2,248**	**1,765**	**1,053**	**1,164**	**6,602**	**77**	**26,535**
Credit at performing credit rating, not in arrears	8,994	4,392	2,197	1,719	1,015	1,114	6,505	72	26,008
Credit not at performing credit rating, not in arrears	71	61	37	38	35	44	36	3	325
In arrears 30-89 days	37	18	2	3	1	3	39	-	103
In arrears over 90 days	12	9	5	3	1	1	13	-	44
Non-accruing credit	22	10	7	2	1	2	9	2	55
Total loans to the public – activity in Israel	**80,570**	**53,196**	**31,737**	**23,286**	**18,188**	**72,120**	**25,217**	**1,036**	**305,350**
Borrower activity overseas									
Total loans to the public – activity overseas	**2,291**	**699**	**516**	**436**	**407**	**657**	**-**	**-**	**5,006**
Non-problematic credit	2,285	685	498	436	407	656	-	-	4,967
Accruing problematic credit	-	10	18	-	-	-	-	-	28
Non-accruing credit	6	4	-	-	-	1	-	-	11
Total loans to the public	**82,861**	**53,895**	**32,253**	**23,722**	**18,595**	**72,777**	**25,217**	**1,036**	**310,356**

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts

	December 31, 2022					
	Balance of non-accruing debts for which a provision has been recognized[(1)(2)]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[(1)]	Total balance of non-accruing debts[(1)]	Contractual principal balance of non-accruing debts	Interest revenues recognized[(3)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	257	36	1	258	435	23
Commercial – other	907	162	17	924	1,196	11
Total commercial	**1,164**	**198**	**18**	**1,182**	**1,631**	**34**
Private individuals – residential mortgages	1,329	67	–	1,329	1,448	–
Private individuals – other	51	42	4	55	75	5
Total loans to the public – activity in Israel	**2,544**	**307**	**22**	**2,566**	**3,154**	**39**
Borrower activity overseas						
Total loans to the public – activity overseas	**11**	**1**	**–**	**11**	**67**	**–**
Total	**2,555**	**308**	**22**	**2,577**	**3,221**	**39**
Of which:						
Measured individually at present value of cash flows	1,077	191	9	1,086	1,601	
Measured individually at fair value of collateral	74	6	9	83	127	
Measured on group basis	1,404	111	4	1,408	1,493	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 134 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2022 amounted to NIS 2,697 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts – Continued

	December 31, 2021 [(4)]					
	Balance of non-accruing debts for which a provision has been recognized[(1)(2)]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[(1)]	Total balance of non-accruing debts[(1)]	Contractual principal balance of non-accruing debts	Interest revenues recognized[(3)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	221	19	40	261	367	3
Commercial – other	789	282	137	926	1,145	12
Total commercial	**1,010**	**301**	**177**	**1,187**	**1,512**	**15**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	36	17	20	56	105	18
Total loans to the public – activity in Israel	**1,046**	**318**	**197**	**1,243**	**1,617**	**33**
Borrower activity overseas						
Total loans to the public – activity overseas	**6**	**1**	**–**	**6**	**1**	**–**
Total	**1,052**	**319**	**197**	**1,249**	**1,618**	**33**
Of which:						
Measured individually at present value of cash flows	882	311	187	1,069	1,403	
Measured individually at fair value of collateral	158	1	10	168	215	
Measured on group basis	12	7	–	12	–	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.
(4) Re-classified in conformity with new disclosure format.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 117 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2021 amounted to NIS 1,528 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts – Continued

	December 31, 2020 [4]					
	Balance of non-accruing debts for which a provision has been recognized[1][2]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[1]	Total balance of non-accruing debts[1]	Contractual principal balance of non-accruing debts	Interest revenues recognized[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	179	22	53	232	319	4
Commercial – other	822	257	309	1,131	1,359	13
Total commercial	**1,001**	**279**	**362**	**1,363**	**1,678**	**17**
Private individuals – residential mortgages	–	–	–	–	–	–
Private individuals – other	37	26	31	68	114	8
Total loans to the public – activity in Israel	**1,038**	**305**	**393**	**1,431**	**1,792**	**25**
Borrower activity overseas						
Total loans to the public – activity overseas	**60**	**43**	**–**	**60**	**64**	**–**
Total	**1,098**	**348**	**393**	**1,491**	**1,856**	**25**
Of which:						
Measured individually at present value of cash flows	972	338	373	1,345	1,684	
Measured individually at fair value of collateral	108	3	20	128	172	
Measured on group basis	18	7	–	18	–	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.
(4) Re-classified in conformity with new disclosure format.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 98 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2020 amounted to NIS 1,469 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt

	December 31, 2022				
	Recorded debt balance				
	Not accruing interest revenues	Accruing[1] in arrears 90 days or longer	Accruing[1] in arrears 30 to 89 days	Accruing[1] not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	40	–	–	1	41
Commercial – other	133	–	–	17	150
Total commercial	**173**	**–**	**–**	**18**	**191**
Private individuals – residential mortgages[2]	36	–	–	–	36
Private individuals – other	34	–	–	24	58
Total loans to the public – activity in Israel	**243**	**–**	–	**42**	**285**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**243**	**–**	–	**42**	**285**

(1) Accruing interest revenues.
(2) Initially presented due to application of new rules on identification of re-structuring of problematic debts for residential mortgages.

As of December 31, 2022 debt subject to re-structuring of problematic debt, amounting to NIS 275 million, was classified as problematic debt.

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt – Continued

	December 31, 2021 [2]				
	Recorded debt balance				
	Not accruing interest revenues	Accruing[1] in arrears 90 days or longer	Accruing[1] in arrears 30 to 89 days	Accruing[1] not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	52	–	–	12	64
Commercial – other	315	–	–	31	346
Total commercial	**367**	**–**	**–**	**43**	**410**
Private individuals – residential mortgages	–	–	–	–	–
Private individuals – other	31	–	1	34	66
Total loans to the public – activity in Israel	**398**	**–**	**1**	**77**	**476**
Borrower activity overseas					
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**
Total	**398**	**–**	**1**	**77**	**476**

(1) Accruing interest revenues.
(2) Re-classified in conformity with new disclosure format.

As of December 31, 2021, debt subject to re-structuring of problematic debt, amounting to NIS 476 million, was classified as problematic debt.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt – Continued

	December 31, 2022			December 31, 2021			December 31, 2020		
							Restructurings made		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel									
Public – commercial									
Construction and real estate	72	18	13	55	25	25	80	25	25
Commercial – other	322	98	95	267	133	133	502	188	174
Total commercial	**394**	**116**	**108**	**322**	**158**	**158**	**582**	**213**	**199**
Private individuals – residential mortgages	88	11	11	–	–	–	–	–	–
Private individuals – other	1,034	34	33	934	27	27	1,027	39	38
Total loans to the public – activity in Israel	**1,516**	**161**	**152**	**1,256**	**185**	**185**	**1,609**	**252**	**237**
Borrower activity overseas									
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**1,516**	**161**	**152**	**1,256**	**185**	**185**	**1,609**	**252**	**237**

	December 31, 2022		December 31, 2021		December 31, 2020	
	Restructurings made which are in default[(1)]					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate	16	–	19	10	4	–
Commercial – other	75	10	77	3	70	5
Total commercial	**91**	**10**	**96**	**13**	**74**	**5**
Private individuals – residential mortgages	66	9	–	–	–	–
Private individuals – other	309	3	298	2	203	4
Total loans to the public – activity in Israel	**466**	**22**	**394**	**15**	**277**	**9**
Borrower activity overseas						
Total loans to the public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total	**466**	**22**	**394**	**15**	**277**	**9**

(1) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.C. Additional information about non-accruing credit in arrears

	As of December 31, 2022							
	Not in arrears 90 days or longer	In arrears 90 to 180 days	In arrears 180 days to 1 year	In arrears over 1 year to 3 years	In arrears over 3 years to 5 years	In arrears over 5 years to 7 years	In arrears over 7 years	Total
Commercial	685	99	173	153	52	20	11	1,193
Residential mortgages	240	441	403	173	31	13	28	1,329
Private individuals – other	34	6	3	8	2	–	2	55
Total	**959**	**546**	**579**	**334**	**85**	**33**	**41**	**2,577**

	As of December 31, 2021							
Commercial	608	114	101	265	60	25	20	1,193
Residential mortgages	–	–	–	–	–	–	–	–
Private individuals – other	44	2	2	6	2	–	–	56
Total	**652**	**116**	**103**	**271**	**62**	**25**	**20**	**1,249**

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

3. Additional information about residential mortgages

Composition of balances by LTV[1], repayment type and interest type is as follows:

		As of December 31, 2022 (audited)			
		Balance of residential mortgages			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	122,818	3,510	77,039	3,012
	Over 60%	73,537	836	46,909	3,009
Junior lien or no lien		485	3	327	5,401
Total		**196,840**	**4,349**	**124,275**	**11,422**

		As of December 31, 2021 (audited)			
		Balance of residential mortgages			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV	Up to 60%	112,939	3,315	71,720	3,798
	Over 60%	62,491	767	39,313	3,859
Junior lien or no lien		328	2	232	12,112
Total		**175,758**	**4,084**	**111,265**	**19,769**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk

Loan ceiling and credit risk (NIS in thousands)		December 31, 2022 Number of Borrowers[1]	Credit[2]	Off-balance sheet credit risk[3]
	Up to 10	291,729	390	513
Above 10	Up to 20	121,540	779	1,051
Above 20	Up to 40	164,021	2,338	2,509
Above 40	Up to 80	180,251	6,107	4,316
Above 80	Up to 150	135,756	11,234	3,773
Above 150	Up to 300	120,517	22,836	3,188
Above 300	Up to 600	104,165	42,229	3,358
Above 600	Up to 1,200	105,731	83,210	7,139
Above 1,200	Up to 2,000	33,822	44,858	5,686
Above 2,000	Up to 4,000	10,676	24,369	3,895
Above 4,000	Up to 8,000	2,453	10,494	2,520
Above 8,000	Up to 20,000	1,125	9,975	3,469
Above 20,000	Up to 40,000	398	7,380	3,364
Above 40,000	Up to 200,000	456	22,430	15,431
Above 200,000	Up to 400,000	73	11,053	7,599
Above 400,000	Up to 800,000	29	7,553	7,482
Above 800,000	Up to 1,200,000	5	2,020	2,421
Above 1,200,000	Up to 1,406,000	2	1,101	1,508
Total		**1,272,749**	**310,356**	**79,222**

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk

Loan ceiling and credit risk (NIS in thousands)		December 31, 2021 Number of Borrowers[1]	Credit[2]	Off-balance sheet credit risk[3]
	Up to 10	282,689	393	524
Above 10	Up to 20	124,338	792	1,094
Above 20	Up to 40	169,577	2,458	2,594
Above 40	Up to 80	184,135	6,364	4,309
Above 80	Up to 150	133,830	11,200	3,654
Above 150	Up to 300	116,153	21,828	3,268
Above 300	Up to 600	104,313	41,667	4,255
Above 600	Up to 1,200	104,776	77,777	11,618
Above 1,200	Up to 2,000	29,133	35,293	7,895
Above 2,000	Up to 4,000	8,977	19,056	4,625
Above 4,000	Up to 8,000	2,022	8,398	2,425
Above 8,000	Up to 20,000	961	8,587	3,156
Above 20,000	Up to 40,000	371	6,815	3,742
Above 40,000	Up to 200,000	369	16,254	13,995
Above 200,000	Up to 400,000	65	8,995	8,900
Above 400,000	Up to 800,000	20	3,835	7,158
Above 800,000	Up to 1,200,000	4	2,406	1,262
Above 1,200,000	Up to 1,318,000	2	1,413	1,239
Total		**1,261,735**	**273,531**	**85,713**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.
(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

	December 31, 2022							
	Credit risk to the public sold					Purchased risk with respect to loans to the public (1)		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year(2)	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year(3)	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	3	50	–	–	–	191	–	–
Private individuals – residential mortgages	1,899	–	–	–	5,876	–	–	–
Private individuals – other	1	–	–	8	–	2,115	–	–
Total credit risk to public	**1,903**	**50**	**–**	**8**	**5,876**	**2,306**	**–**	**–**

	December 31, 2021							
	Credit risk to the public sold					Purchased risk with respect to loans to the public (1)		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year(2)	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year(3)	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	234	–	–	–	–	–	–	–
Private individuals – residential mortgages	–	–	–	–	4,998	–	–	–
Private individuals – other	–	–	–	–	–	1,778	–	–
Total credit risk to public	**234**	**–**	**–**	**–**	**4,998**	**1,778**	**–**	**–**

(1) Excluding short-term factoring transactions.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.

(3) Of which: Loans at 10% which are seller-guaranteed loans (for credit risk).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Syndications and participation in loan syndications

December 31, 2022	Syndication transactions initiated by the Bank[2]				Syndication transactions initiated by others	
					Balance as of end of year	
	Bank's share		Others' share		Bank's share	
	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]
Construction and real estate	1,635	1	1,884	1	572	108
Commercial – other	2,796	2,504	6,916	2,671	2,086	553
Total credit risk to public	**4,431**	**2,505**	**8,800**	**2,672**	**2,658**	**661**

December 31, 2021[3]	Syndication transactions initiated by the Bank[2]				Syndication transactions initiated by others	
					Balance as of end of year	
	Bank's share		Others' share		Bank's share	
	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]
Construction and real estate	342	2	726	29	-	-
Commercial – other	2,103	935	5,767	1,190	824	466
Total credit risk to public	**2,445**	**937**	**6,493**	**1,219**	**824**	**466**

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.

(2) Excluding syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 274 million in 2022 (in 2021: NIS 308 million).

(3) Restated.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31			
	2022	2021	2022	2021
	Balance[1]	Balance[1]	Provision for credit losses	Provision for credit losses
Transactions in which the balance represents a credit risk:				
Unutilized debitory account and other credit facilities in accounts				
On-call, un-utilized	21,772	21,168	23	39
Guarantees to home buyers	19,069	16,582	10	8
Irrevocable commitments for loans approved but not yet granted[3]	21,029	32,963	35	46
Unutilized revolving credit card facilities	11,730	10,643	11	9
Commitments to issue guarantees	8,122	9,351	2	3
Guarantees and other liabilities[2]	12,881	10,571	101	65
Loan guarantees	3,531	3,321	36	38
Documentary credit	315	430	2	3

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.
(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 70 million. (As of December 31, 2021: NIS 85 million).
(3) Includes effect of extension of approval in principle for residential mortgages, from 12 to 24 days, pursuant to update to Proper Conduct of Banking Business Directive 451 regarding "Procedures for extending residential mortgages".

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2022

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	75,216	-	17,624	490	343	-	93,673
Securities	6,645	2,498	4,935	414	-	652	15,144
Securities borrowed or bought in conjunction with resale agreements	269	46	-	-	-	-	315
Loans to the public, net[3]	215,424	76,228	8,733	4,687	2,400	-	307,472
Loans to Governments	7	-	198	113	-	-	318
Investments in associated companies	35	-	-	-	-	92	127
Buildings and equipment	-	-	-	-	-	1,503	1,503
Intangible assets and goodwill	-	-	-	-	-	178	178
Assets with respect to derivatives	1,595	115	3,025	825	229	-	5,789
Other assets	2,307	255	301	8	30	872	3,773
Total assets	**301,498**	**79,142**	**34,816**	**6,537**	**3,002**	**3,297**	**428,292**
Liabilities							
Deposits from the public	260,411	21,767	53,475	5,916	2,945	-	344,514
Deposits from banks	5,050	-	1,454	176	314	-	6,994
Deposits from the Government	31	2	14	-	-	-	47
Bonds and subordinated notes	5,442	25,718	2,127	-	-	-	33,287
Liabilities with respect to derivatives	1,638	164	2,642	590	180	-	5,214
Other liabilities	9,237	2,852	228	1	66	984	13,368
Total liabilities	**281,809**	**50,503**	**59,940**	**6,683**	**3,505**	**984**	**403,424**
Difference	**19,689**	**28,639**	**(25,124)**	**(146)**	**(503)**	**2,313**	**24,868**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,264	(1,264)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(24,013)	(594)	24,129	(54)	532	-	-
Net in-the-money options (in terms of underlying asset)	(1,183)	-	1,115	122	(54)	-	-
Net out-of-the-money options (in terms of underlying asset)	(36)	-	41	40	(45)	-	-
Grand total	**(4,279)**	**26,781**	**161**	**(38)**	**(70)**	**2,313**	**24,868**
Net in-the-money options (capitalized par value)	(1,856)	-	1,825	20	11	-	-
Net out-of-the-money options (capitalized par value)	1,853	-	(1,756)	(79)	(18)	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 31 – Assets and Liabilities by Linkage Basis – continued

As of December 31, 2021

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency(1)				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	87,091	–	7,471	518	187	–	95,267
Securities	6,728	1,469	5,676	434	–	726	15,033
Securities borrowed or bought in conjunction with resale agreements	1,110	222	–	–	–	–	1,332
Loans to the public, net(3)	190,455	69,534	6,395	3,123	1,921	–	271,428
Loans to Governments	74	–	273	130	–	–	477
Investments in associated companies	35	–	–	–	–	34	69
Buildings and equipment	–	–	–	–	–	1,734	1,734
Intangible assets and goodwill	–	–	–	–	–	208	208
Assets with respect to derivatives	2,910	51	549	111	28	3	3,652
Other assets	1,698	523	172	1	21	656	3,071
Total assets	**290,101**	**71,799**	**20,536**	**4,317**	**2,157**	**3,361**	**392,271**
Liabilities							
Deposits from the public	233,149	21,503	44,961	5,574	2,737	–	307,924
Deposits from banks	5,116	–	1,629	224	23	–	6,992
Deposits from the Government	21	2	58	–	–	–	81
Bonds and subordinated notes	6,989	29,177	1,880	–	–	–	38,046
Liabilities with respect to derivatives	2,977	111	534	104	24	3	3,753
Other liabilities	8,880	3,268	212	6	38	1,342	13,746
Total liabilities	**257,132**	**54,061**	**49,274**	**5,908**	**2,822**	**1,345**	**370,542**
Difference	**32,969**	**17,738**	**(28,738)**	**(1,591)**	**(665)**	**2,016**	**21,729**
Impact of hedging derivatives:							
Derivative instruments (other than options)	2,294	(2,294)	–	–	–	–	–
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(30,482)	(732)	29,070	1,533	611	–	–
Net in-the-money options (in terms of underlying asset)	258	–	(271)	39	(26)	–	–
Net out-of-the-money options (in terms of underlying asset)	(124)	–	104	27	(7)	–	–
Grand total	**4,915**	**14,712**	**165**	**8**	**(87)**	**2,016**	**21,729**
Net in-the-money options (capitalized par value)	(281)	–	132	150	(1)	–	–
Net out-of-the-money options (capitalized par value)	520	–	(403)	(109)	(8)	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 32 – Assets and liabilities by currency and by term to maturity[1]

Reported amounts (NIS in millions)

	Expected contractual future cash flows						-
	On-call to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	-
As of December 31, 2022							-
Israeli currency (including linked to foreign currency)							-
Assets	[3]92,990	14,391	44,983	36,340	28,598	23,594	-
Liabilities	193,082	65,953	48,271	19,061	6,266	2,969	-
Difference	**(100,092)**	**(51,562)**	**(3,288)**	**17,279**	**22,332**	**20,625**	-
Futures transactions	(8,460)	(15,818)	1,099	(547)	(44)	(715)	-
Options	(700)	(213)	(313)	20	21	18	-
Difference after effect of derivative instruments	**(109,252)**	**(67,593)**	**(2,502)**	**16,752**	**22,309**	**19,928**	-
Foreign currency							-
Assets	23,332	2,064	4,084	2,551	1,481	916	-
Liabilities	11,409	16,008	17,590	822	341	2,248	-
Difference	**11,923**	**(13,944)**	**(13,506)**	**1,729**	**1,140**	**(1,332)**	-
Of which: Difference in USD	(3,647)	(9,634)	(10,330)	299	210	(1,967)	-
Of which: Difference with respect to foreign operations	13,671	(2,901)	(1,052)	485	619	471	-
Futures transactions	8,460	15,818	(1,099)	547	44	715	-
Options	700	213	313	(20)	(21)	(18)	-
Difference after effect of derivative instruments	**21,083**	**2,087**	**(14,292)**	**2,256**	**1,163**	**(635)**	-
Total							-
Assets	116,322	16,455	49,067	38,891	30,079	24,510	-
Liabilities	204,491	81,961	65,861	19,883	6,607	5,217	-
Difference	**(88,169)**	**(65,506)**	**(16,794)**	**19,008**	**23,472**	**19,293**	-
Of which: Loans to the public	22,526	15,294	44,309	35,584	27,964	22,065	-
Of which: Deposits from the public	195,298	80,626	51,216	14,078	2,668	(1,919)	-
							-
As of December 31, 2021							-
Assets	[3]111,460	13,704	38,151	34,556	28,004	19,819	-
Liabilities	205,809	56,134	55,568	9,581	11,089	7,221	-
Difference	**(94,349)**	**(42,430)**	**(17,417)**	**24,975**	**16,915**	**12,598**	-

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 694 million and NIS 1,001 million as of December 31, 2022 and 2021, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 3,835 million and NIS 4,169 million as of December 31, 2022 and 2021, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 266 million and NIS 230 million as of December 31, 2022 and 2021, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

-						Balance sheet balance		
-	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	Contractual rate of return[4]
-								
-								
-	22,039	81,817	109,916	47,151	501,819	[2]1,520	385,249	4.85%
-	6,013	14,399	2,724	662	359,400	242	354,288	1.93%
-	**16,026**	**67,418**	**107,192**	**46,489**	**142,419**	**1,278**	**30,961**	
-	21	28	(39)	-	(24,475)	-	(24,475)	
-	8	-	-	-	(1,159)	-	(1,160)	
-	**16,055**	**67,446**	**107,153**	**46,489**	**116,785**	**1,278**	**5,326**	
-								
-	1,439	2,472	2,441	393	41,173	[2]40	39,746	4.03%
-	106	150	100	79	48,853	82	48,152	4.09%
-	**1,333**	**2,322**	**2,341**	**314**	**(7,680)**	**(42)**	**(8,406)**	
-	76	99	3	9	(24,882)	-	(25,122)	
-	435	1,571	420	-	13,719	-	13,668	
-	(21)	(28)	39	-	24,475	-	24,475	
-	(8)	-	-	-	1,159	-	1,160	
-	**1,304**	**2,294**	**2,380**	**314**	**17,954**	**(42)**	**17,229**	
-								
-	23,478	84,289	112,357	47,544	542,992	1,560	424,995	4.81%
-	6,119	14,549	2,824	741	408,253	324	402,440	2.05%
-	**17,359**	**69,740**	**109,533**	**46,803**	**134,739**	**1,236**	**22,555**	
-	20,610	82,710	109,173	45,511	425,746	601	307,472	4.93%
-	2,272	3,363	1,069	-	348,671	-	344,514	1.87%
-								
-	18,222	65,955	84,325	30,012	444,208	[2]2,740	388,910	2.53%
-	7,237	17,209	3,383	614	373,845	239	369,197	1.43%
-	**10,985**	**48,746**	**80,942**	**29,398**	**70,363**	**2,501**	**19,713**	

Note 33 – Balances and estimates of fair value of financial instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.
The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.
The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.
Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.
The early repayment assumptions resulted in a NIS 1,818 million increase in total fair value of assets, and in a NIS 98 million increase in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as bonds and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to the Bank, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For bonds and subordinated notes traded as an asset on an active market, fair value is based on quoted market prices or on trader quotes for identical liabilities traded on an active market.

C. Negotiable securities, see Note 1. D.6. to the financial statements.

D. Investments in corporations for which a market value cannot be quoted and options where shares of such corporations are the underlying asset, are not included in this Note at their fair value but rather at cost, (net of impairment) adjusted for observed price changes in standard transactions in similar or identical investments for the same issuer. The cost, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated
These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar customer (for residential mortgages – a rate which reflects the risk associated with the category).

F. Non-accruing debts – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of non-accruing debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs. A decrease by 1% in the discount rate affects the fair value of non-accruing debt of the Group by NIS 16 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivative instruments – see Note 1. D.16. to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivative instruments and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	December 31, 2022				
		Fair value			
	Book balance	**Level 1[1]**	**Level 2[1]**	**Level 3[1]**	**Total**
Financial assets					
Cash and deposits with banks	93,673	24,826	64,637	4,206	93,669
Securities[3]	15,144	10,607	4,018	367	14,992
Securities borrowed or purchased in resale agreements	315	315	–	–	315
Loans to the public, net	307,472	1,917	8,619	[5]289,942	300,478
Loans to Governments	318	–	–	315	315
Investments in associated companies	127	–	–	127	127
Assets with respect to derivatives	5,789	640	4,742	[2]407	5,789
Other financial assets	772	7	–	577	584
Total financial assets	**[4]423,610**	**38,312**	**82,016**	**295,941**	**416,269**
Financial liabilities					
Deposits from the public	344,514	2,657	110,551	[5]228,119	341,327
Deposits from banks	6,994	–	298	6,675	6,973
Deposits from the Government	47	–	–	45	45
Bonds and subordinated notes	33,287	28,794	–	2,676	31,470
Liabilities with respect to derivatives	5,214	625	4,148	[2]441	5,214
Other financial liabilities	8,641	1,145	1,982	5,324	8,451
Total financial liabilities	**[4]398,697**	**33,221**	**116,979**	**243,280**	**393,480**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 102,730 million and NIS 129,830 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 9 million and NIS 7 million, respectively.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	December 31, 2021				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	95,267	16,662	71,514	7,093	95,269
Securities(3)	15,033	10,553	4,117	424	15,094
Securities borrowed or purchased in resale agreements	1,332	1,332	–	–	1,332
Loans to the public, net	271,428	1,641	9,423	(5)263,092	274,156
Loans to Governments	477	–	–	477	477
Investments in associated companies	69	–	–	69	69
Assets with respect to derivatives	3,652	320	2,072	(2)1,260	3,652
Other financial assets	1,130	7	–	1,123	1,130
Total financial assets	**(4)388,388**	**30,515**	**87,126**	**273,538**	**391,179**
Financial liabilities					
Deposits from the public	307,924	1,588	107,921	200,501	310,010
Deposits from banks	6,992	–	443	6,549	6,992
Deposits from the Government	81	–	–	81	81
Bonds and subordinated notes	38,046	35,956	3	3,661	39,620
Liabilities with respect to derivatives	3,753	320	2,593	(2)840	3,753
Other financial liabilities	10,193	2,444	1,844	5,905	10,193
Total financial liabilities	**(4)366,989**	**40,308**	**112,804**	**217,537**	**370,649**

(1) Level 1 – Fair value measurement using quoted prices on an active market; Level 2 – Fair value measurement using other significant observed data; Level 3 – Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 102,052 million and NIS 118,615 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 7 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	December 31, 2022			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	**Total fair value**
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	1,593	3,356	–	4,949
Of foreign governments	1,330	–	–	1,330
Of banks and financial institutions in Israel	374	9	–	383
Of banks and financial institutions overseas	10	252	–	262
Asset-backed (ABS)	–	55	–	55
Of others in Israel	680	147	11	838
Of others overseas	205	9	3	217
Shares not held for trading	220	63	23	306
Securities held for trading:				
Bonds of the Government of Israel	2,749	–	–	2,749
Bonds of overseas governments	–	127	–	127
Bonds of financial institutions in Israel	1	–	–	1
Bonds of others in Israel	25	–	–	25
Bonds of foreign others	42	–	–	42
Shares held for trading	20	–	–	20
Securities borrowed or purchased in resale agreements	315	–	–	315
Credit with respect to loans to customers	1,917	–	–	1,917
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	60	56	116
Other	–	1,998	3	2,001
Currency contracts	59	2,632	307	2,998
Contracts for shares	577	52	39	668
Commodities and other contracts	4	–	2	6
Other financial assets	7	–	–	7
Other	–	–	9	9
Total assets	**10,128**	**8,760**	**453**	**19,341**
Liabilities				
Deposits with respect to borrowing from customers	2,657	–	–	2,657
Liabilities with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	–	103	61	164
Other	–	1,539	64	1,603
Currency contracts	45	2,430	233	2,708
Contracts for shares	576	66	83	725
Commodities and other contracts	4	10	–	14
Other financial liabilities	1,145	–	–	1,145
Other	–	–	7	7
Total liabilities	**4,427**	**4,148**	**448**	**9,023**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	December 31, 2021			
	Prices quoted on active market (level 1)	**Other significant observed data (level 2)**	**Non-observed significant data (level 3)**	**Total fair value**
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	3,638	3,676	–	7,314
Of foreign governments	2,035	–	–	2,035
Of banks and financial institutions in Israel	292	34	–	326
Of banks and financial institutions overseas	9	142	26	177
Asset-backed (ABS)	–	6	–	6
Of others in Israel	518	175	19	712
Of others overseas	221	20	12	253
Shares not held for trading	277	64	15	356
Securities held for trading:				
Bonds of the Government of Israel	473	–	–	473
Bonds of financial institutions in Israel	4	–	–	4
Bonds of others in Israel	24	–	–	24
Bonds of foreign others	49	–	–	49
Shares held for trading	20	–	–	20
Securities borrowed or purchased in resale agreements	1,332	–	–	1,332
Credit with respect to loans to customers	1,641	–	–	1,641
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	34	39	73
Other	–	450	78	528
Currency contracts	73	1,552	718	2,343
Contracts for shares	247	36	423	706
Commodities and other contracts	–	–	2	2
Other financial assets	7	–	–	7
Other	–	–	7	7
Total assets	**10,860**	**6,189**	**1,339**	**18,388**
Liabilities				
Deposits with respect to borrowing from customers	1,588	–	–	1,588
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	–	71	46	117
Other	–	563	117	680
Currency contracts	73	1,954	665	2,692
Contracts for shares	247	–	12	259
Commodities and other contracts	–	5	–	5
Other financial liabilities	2,444	–	–	2,444
Total liabilities	**4,352**	**2,593**	**840**	**7,785**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	December 31, 2022				For the year ended December 31, 2022
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Impaired credit whose collection is contingent on collateral	–	–	83	83	(8)
Investments in shares for which no fair value is available	–	–	326	326	32

	December 31, 2021				For the year ended December 31, 2021
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	6	162	168	29
Investments in shares for which no fair value is available	–	–	350	350	42

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2022									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2021	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of December 31, 2022	Unrealized gains (losses) with respect to instruments held as of December 31, 2022
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	26	3	–	–	(3)	–	–	(26)	–	–
Of others in Israel	19	4	–	–	–	(4)	–	(8)	11	3
Of others overseas	12	–	–	–	–	(9)	–	–	3	–
Shares not held for trading	15	2	–	6	–	–	–	–	23	(2)
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	39	9	–	9	–	(19)	18	–	56	23
Other	78	(109)	–	37	–	(3)	–	–	3	2
Currency contracts	718	116	–	1,952	–	(2,475)	(1)	(3)	307	162
Contracts for shares	423	52	–	35	–	(471)	–	–	39	–
Commodities and other contracts	2	–	–	–	–	–	–	–	2	–
Other	7	3	–	–	–	–	(1)	–	9	–
Total assets	**1,339**	**80**	**–**	**2,039**	**(3)**	**(2,981)**	**16**	**(37)**	**453**	**188**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	46	30	–	5	–	(54)	34	–	61	(2)
Other	117	(58)	–	7	–	(2)	–	–	64	(66)
Currency contracts	665	517	–	1,151	–	(2,100)	–	–	233	(99)
Contracts for shares	12	50	–	149	–	(128)	–	–	83	–
Commodities and other contracts	–	–	–	–	–	–	–	–	–	–
Other	–	10	–	–	–	–	(3)	–	7	–
Total liabilities	**840**	**549**	**–**	**1,312**	**–**	**(2,284)**	**31**	**–**	**448**	**(167)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2021									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2020	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3[3]	Transfers from Level 3[3]	Fair value as of December 31, 2021	Unrealized gains (losses) with respect to instruments held as of December 31, 2021
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	5	(1)	–	–	–	(2)	24	–	26	(1)
Of others in Israel	19	–	(1)	–	–	(10)	11	–	19	(2)
Of others overseas	–	–	1	–	–	–	11	–	12	–
Securities held for trading										
Of others in Israel	3	–	–	–	–	(3)	–	–	–	–
Shares not held for trading	16	(1)	–	–	–	–	–	–	15	(1)
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	59	(27)	–	10	–	(46)	43	–	39	21
Other	162	(86)	–	8	–	(6)	–	–	78	74
Currency contracts	1,337	23	–	1,431	–	(2,073)	–	–	718	549
Contracts for shares	189	492	–	107	–	(365)	–	–	423	–
Commodities and other contracts	8	3	–	–	–	(9)	–	–	2	–
Other	9	(2)	–	–	–	–	–	–	7	–
Total assets	**1,807**	**401**	**–**	**1,556**	**–**	**(2,514)**	**89**	**–**	**1,339**	**640**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	48	(10)	–	10	–	(41)	39	–	46	–
Other	215	(53)	–	4	–	(49)	–	–	117	(64)
Currency contracts	1,287	99	–	1,123	–	(1,844)	–	–	665	(315)
Contracts for shares	93	8	–	32	–	(121)	–	–	12	–
Commodities and other contracts	9	(8)	–	–	–	(1)	–	–	–	–
Other	6	(6)	–	–	–	–	–	–	–	–
Total liabilities	**1,658**	**30**	**–**	**1,169**	**–**	**(2,056)**	**39**	**–**	**840**	**(379)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of December 31, 2022	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	23	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	11	NAV (Net Asset Value) model	Price	63.50	63.50
Bonds of foreign others	3	Cash flows discounting	Price	15.00-72.25	24.25
Assets with respect to derivative instruments:					
NIS / CPI	23	Cash flows discounting	Inflationary expectations	2.36%-2.72%	2.61%
Other	393	Cash flows discounting	Counter-party credit quality	0.30%-3.10%	2.19%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	60	Cash flows discounting	Inflationary expectations	2.36%-2.72%	2.55%
Other	388	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.84%

	Fair value as of December 31, 2021	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	15	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	1	Cash flows discounting	Price	5.60-56.33	8.43
	8	NAV (Net Asset Value) model	Price	47.81	47.81
Bonds of foreign others	12	Cash flows discounting	Price	19.00-96.00	61.57
Assets with respect to derivative instruments:					
NIS / CPI	21	Cash flows discounting	Inflationary expectations	2.20%-5.20%	2.30%
Foreign currency	30	Cash flows discounting	Counter-party credit quality	0.13%-16.87%	0.57%
Other	1,216	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.77%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	36	Cash flows discounting	Inflationary expectations	1.56%-2.31%	2.25%
Other	804	Cash flows discounting	Counter-party credit quality	0.30%-2.60%	1.67%

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Information regarding uncertainty of fair value measurements to changes in unobserved data

The main valuation technique of significant unobserved data used in measurement of fair value of assets and liabilities at Level 3 is Discounted Cash Flow. The future cash flows for the instrument is derived from the agreement with the counter-party. The discount rate used to discount the cash flow reflects the Bank's assumptions.

The primary unobserved data used in measurement of fair value of bonds is the price of the bonds.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain bonds would be recorded to profit and loss, with bonds classified under the portfolio held for trading, although they had not been purchased for this purpose.

The election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of December 31, 2022 and December 31, 2021, the Bank did not elect the fair value option.

For more information see Notes 2D, 3A.2, 3B And 12(4).

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2022										
	Interested parties								Related parties owned by the banking corporation		-
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies		-
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	-
Assets											-
Securities	-	-	-	-	61	65	-	-	-	-	-
Loans to the public	24	44	46	48	305	384	-	-	-	-	-
Provision for credit losses	-	1	-	-	1	4	-	-	-	-	-
Loans to the public, net	24	43	46	48	304	380	-	-	-	-	-
Investments in associated companies	-	-	-	-	-	-	-	-	127	127	-
Liabilities											-
Deposits from the public	97	538	32	42	1,980	2,089	-	-	-	-	-
Shares (included in shareholders' equity)(2)	9,885	9,885	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments(3)	3	3	8	10	263	398	-	-	-	-	-

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's shareholders' equity.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

-									As of December 31, 2021	
-		Interested parties								Related parties owned by the banking corporation
-										
		Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies
-	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
-										
-	-	-	-	-	58	140	-	-	-	-
-	38	69	20	21	242	372	-	-	23	35
-	1	1	-	-	1	4	-	-	-	-
-	37	68	20	21	241	368	-	-	23	35
-										
	-	-	-	-	-	-	-	-	69	69
-										
-	587	618	52	77	943	2,150	-	-	75	118
-										
	8,659	8,687	-	-	-	-	-	-	-	-
-										
	2	2	10	13	198	448	-	-	171	232

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31				
	2022				
	Interested parties			Related parties owned by the banking corporation	-
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies	-
Net interest revenues from loans to the public	1	1	12	-	-
Interest expenses for deposits from the public	(1)	(1)	(11)	-	-
Total interest revenues (expenses), net	**-**	**-**	**1**	**-**	-
Net non-interest financing **expenses**	-	(1)	(5)	-	-
Operating and other expenses	-	(46)	-	-	-
Total	**-**	**(47)**	**(4)**	**-**	-

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31			-
	2022			-
	Officers[1]			Others[2]-
	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients-
Interested party employed by or on behalf of the corporation	39	14	-	- -
Board member not employed by or on behalf of the corporation	7	9	-	- -
Other interested party not employed by or on behalf of the corporation	-	-	-	- -

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

-								
-	2021				2020			
-	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
-	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
-	1	1	16	-	-	-	6	-
-	(1)	(1)	(1)	-	-	-	(8)	-
-	**-**	**-**	**15**	**-**	**-**	**-**	**(2)**	**-**
-	-	-	38	-	-	-	16	-
-	-	(43)	-	-	-	(43)	-	-
-	**-**	**(43)**	**53**	**-**	**-**	**(43)**	**14**	**-**

-								
-	2021				2020			
-	Officers[1]		Others[2]		Officers[1]		Others[2]	
-	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
-	37	14	-	-	37	16	-	-
-	6	11	-	-	6	10	-	-
-	-	-	-	-	-	-	-	-

Note 35 – Significant events during the reported period and other material information

Acquisition of Union Bank

As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet. For more information about acquisition of Union Bank and valuation of assets and liabilities, see Note 35 to the 2020 financial statements.

On August 1, 2022, the process of merging Union Bank insurance agencies with and into Tefahot Insurance Agency Ltd. of Bank Mizrahi Tefahot Group was concluded.

After the balance sheet date, on January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. (a Bank Group company) was completed.

On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank.

Note 36 – Events after the balance sheet date

- On March 13, 2023, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 326.1 million, or 30% of earnings in the fourth quarter of 2022, in conformity with the Bank's dividend policy.
  The dividends are 1267.9% of issued share capital, i.e. NIS 1.2679 per NIS 0.1 par value share. The effective date for dividends payment is March 21, 2023and the payment date is March 28, 2023. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2023.
- After the balance sheet date, on January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. (a Bank Group company) was completed.
- On February 20, 2023, after the balance sheet date, Tefahot Issuance issued commercial paper (Series 1) for NIS 1.1 billion.

Note 37 – Condensed financial statements of the Bank(1)

A. Statement of profit and loss

Reported amounts (NIS in millions)

	2022	2021	2020
Interest revenues	15,058	9,216	6,803
Interest expenses	6,273	3,014	1,936
Interest revenues, net	8,785	6,202	4,867
Expenses with respect to credit losses	654	(207)	1,038
Interest revenues, net after expenses with respect to credit losses	**8,131**	**6,409**	**3,829**
Non-interest revenues			
Non-interest financing revenues	673	184	169
Commissions	1,670	1,437	1,334
Other revenues	402	284	208
Total non-interest revenues	**2,745**	**1,905**	**1,711**
Operating and other expenses			
Payroll and associated expenses	3,295	2,748	2,203
Maintenance and depreciation of buildings and equipment	803	738	704
Other expenses	586	449	432
Total operating and other expenses	**4,684**	**3,935**	**3,339**
Pre-tax profit	6,192	4,379	2,201
Provision for taxes on profit	2,168	1,517	775
After-tax profit	**4,024**	**2,862**	**1,426**
Share in profits of investee companies, after tax	448	326	184
Net profit	**4,472**	**3,188**	**1,610**

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il >> About the Bank >> Investor Relations >> Financial Information

Note 37 – Condensed financial statements of the Bank – Continued

B. Balance sheet

Reported amounts (NIS in millions)

	2022	2021
Assets		
Cash and deposits with banks	89,604	85,590
Securities[(1)]	12,406	8,091
Securities borrowed or purchased in resale agreements	315	412
Loans to the public	297,204	243,670
Provision for credit losses	(2,752)	(2,000)
Loans to the public, net	294,452	241,670
Loans to Governments	318	477
Investments in investee companies	4,758	6,214
Buildings and equipment	1,308	1,265
Intangible assets and goodwill	91	–
Assets with respect to derivatives	5,789	3,312
Other assets	3,204	2,172
Total assets	**412,245**	**349,203**
Liabilities and Equity		
Deposits from the public	344,150	285,659
Deposits from banks	24,405	24,773
Deposits from the Government	31	72
Bonds and subordinated notes	2,708	5,329
Liabilities with respect to derivatives	5,214	3,247
Other liabilities [(2)]	11,957	9,353
Total liabilities	**388,465**	**328,433**
Capital	**23,780**	**20,770**
Total liabilities and equity	**412,245**	**349,203**

(1) Of which: NIS 11,176 million recognized on the financial statements at fair value (on December 31, 2021: NIS 6,861 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 219 million (on December 31, 2021: NIS 181 million).

Note 37 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows

Reported amounts (NIS in millions)

	2022	2021	2020
Cash Flows from Current Activity			
Net profit	4,472	3,188	1,610
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(448)	(326)	(362)
Depreciation of buildings and equipment (including impairment)	233	220	206
Expenses with respect to credit losses	654	(207)	1,038
Gain from sale of securities available for sale and shares not held for trading	53	(27)	(94)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(86)	17	(34)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	22	(38)	-
Gain from sale of buildings and equipment	(127)	(18)	(41)
Impairment of securities held for sale and shares not held for trading	42	9	-
Expenses arising from share-based payment transactions	45	41	23
Deferred taxes, net	(360)	58	(182)
Change in employees' provisions and liabilities	473	30	(12)
Adjustments with respect to exchange rate differentials	(463)	32	296
Gain from sale of loan portfolios	-	-	-
Accrual differences included with investment and financing operations	(561)	285	7
Net change in current assets			
Assets with respect to derivatives	(2,459)	343	(1,108)
Securities held for trading	(485)	80	456
Other assets, net	1,281	197	(692)
Net change in current liabilities			
Liabilities with respect to derivatives	1,967	(1,072)	1,634
Other liabilities	(791)	(202)	1,636
Net cash provided by current operations	**3,462**	**2,610**	**4,381**

Note 37 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows – Continued

Reported amounts (NIS in millions)

	2022	2021	2020
Cash flows from investment activities			
Net change in deposits with banks	1	2	12
Net change in loans to the public	(53,047)	(31,613)	(16,944)
Net change in loans to Governments	159	136	43
Net change in securities loaned or acquired in resale agreements	97	(218)	(74)
Acquisition of bonds held to maturity	(52)	(634)	-
Proceeds from redemption of bonds held to maturity	-	-	649
Purchase of securities available for sale and shares not held for trading	(13,830)	(8,531)	(3,406)
Proceeds from sale of securities available for sale and shares not held for trading	11,608	2,873	3,495
Proceeds from redemption of securities available for sale	58	3,106	944
Proceeds from sale of loan portfolios	1,934	234	40
Purchase of loan portfolios – public	(2,306)	-	(576)
Purchase of loan portfolios – Government	-	-	-
Acquisition of buildings and equipment	(339)	(285)	(251)
Proceeds from sale of buildings and equipment	201	35	73
Purchase of shares in associated companies	(61)	(49)	(516)
Proceeds from realized investment in associated companies	8	-	31
Net cash used in investment activities	791	-	-
Cash flows provided by financing operations	**(54,778)**	**(34,944)**	**(16,480)**
Net change in deposits from the public			
Net change in deposits from banks	58,491	42,525	25,936
Net change in deposits from Government	(368)	5,538	6,453
	(41)	5	44
Issuance of bonds and subordinated notes	-	1,955	-
Redemption of bonds and subordinated notes	(2,273)	(3)	(3)
Dividends paid to shareholders	(941)	(1,236)	(176)
Net cash provided by financing operations	**54,868**	**48,784**	**32,254**
Increase (decrease) in cash	3,552	16,450	20,155
Cash balance at beginning of the period	85,586	69,168	49,309
Effect of changes in exchange rate on cash balances	463	(32)	(296)
Cash balance at end of the period	**89,601**	**85,586**	**69,168**
Interest and taxes paid / received			
Interest received	11,135	9,822	6,810
Interest paid	4,821	2,244	2,145
Dividends received	8	5	3
Income taxes received	106	-	52
Income taxes paid	2,012	1,445	994
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	-	-	-
Sales of buildings and equipment	-	1	-
Shares issued in conjunction with acquisition of Union Bank	-	-	(1,207)

Bank Mizrahi Tefahot

Corporate governance, audit, other information about the Bank and its management

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Corporate governance and audit

Board of Directors and management

Board of Directors

During 2022, the Bank's Board of Directors held 22 plenary meetings. During this period there were also 69 meetings of Board committees and 17 Board member workshops.

The permanent Board committees are: Audit, Credit, Risks Management, IT and Technology Innovation, Remuneration and Union Bank Integration Committees.

Presented below are changes during 2022 and through publication of these financial statements:

- On August 9, 2022, a General Meeting of shareholders was held and resolved to re-appoint Mr. Joseph Fellus as External Board member pursuant to the Corporate Law, for a further term of three years (second term in office), as from August 20, 2022.
- On December 21, 2022, the General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman as Board member of the Bank for an additional one-year term, and to (re-)appoint Messrs. Ron Gazit, Jonathan Kaplan, Avi Zeldman, Ilan Kremer and Eli Alroy as Board members of the Bank for additional three-year terms.
- Mr. Eli Alroy started his term in office as member of the Credit Committee on January 1, 2023.

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman, Chairman of the Board of Directors	Credit Committee – Chairman; Risks Management Committee – Chairman; IT and Technology Innovation Committee, Union Bank Integration Committee (1)
Eli Alroy	IT and Technology Innovation Committee; Union Bank(1) Integration Committee, Credit Committee (as from January 1, 2023)
Ron Gazit	IT and Technology Innovation Committee, Credit Committee
Estheri Giloz-Ran	Audit Committee, IT and Technology Innovation Committee, Remuneration Committee
Avraham Zeldman	Union Bank Integration Committee (1)– Chair, Audit Committee, Risks Management Committee
Hannah Fayer	Remuneration Committee – Chair, Audit Committee, Credit Committee
Joseph Fellus	Audit Committee – Chair, Credit Committee, Risks Management Committee; Remuneration Committee; Union Bank Integration Committee(1)
Jonathan Kaplan	Credit Committee, Risks Management Committee, Union Bank(1) Integration Committee, IT and Technology Innovation Committee
Ilan Kremer	Risks Management Committee
Gilad Rabinobich	IT and Technology Innovation Committee – Chair, Audit Committee, Risks Management Committee, Remuneration Committee, Union Bank Integration Committee(1)

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least three directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 5 Board members having accounting and financial qualifications.

Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 8 Board members having accounting and financial qualifications: Messrs. Moshe Vidman, Estheri Giloz-Ran, Avraham Zeldman, Hannah Feuer, Joseph Fellus, Jonathan Kaplan, Ilan Kremer and Gilad Rabinobich.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26 on the Bank's 2022 Annual Report on the ISA MAGNA website.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and customer base.

(1) Ad-hoc Union Bank Integration Committee. Further to completion of the Union Bank merger, the Committee was eliminated in the first quarter of 2023.

Executive Management

Presented below are changes during 2022 and through publication of these financial statements[(1)]:

Ms. Shevy Shemer, having served as CEO of Union Bank in the past three years, was appointed VP, Manager of the Retail Division of the Bank as from April 1, 2022, replacing Mr. Israel Engel who concluded their term in office.

The following are Executive Management Forum members as of December 31, 2022 with their title and position:

Moshe Lari	President & CEO
Menahem Aviv	Vice President, Manager, Financial Information & Reporting Division and Chief Accountant
Shevy Shemer	Vice President and Manager, Retail Division
Ayala Hakim	Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Terry Yaskil	Vice President and Manager, Marketing, Advertising and Corporate Development Division
Nissan Levy	Vice President and Manager, Human Capital, Resources and Operations Division
Ofir Morad	Vice President and Manager, Business Banking Division
Rachel Friedman	Vice President, Manager, Legal Division, Chief Legal Counsel
Doron Klauzner	Vice President, Manager, Risks Control Division and Chief risks officer (CRO)
Adi Shachaf	Vice President, Manager, Finance Division and Chief Financial Officer (CFO)

Ofer Horvitz	Bank Secretary and Manager, Bank Headquarters
Galit Weizer	Chief Internal Auditor; Manager, Internal Audit Division
Benny Shoukroun	Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26A on the Bank's 2022 Annual Report on the ISA MAGNA website.

(1) On February 12, 2023, the Bank Board of Directors approved the recommendation by the Bank President & CEO, to appoint Ofer Hurwitz, currently serving as Bank Secretary and Head of the Bank Headquarters, to be Deputy CEO and Nanager, Risks Control Division, replacing Doron Klauzner who is retiring. This appointment is subject to approval by the Supervisor of Banks. Hanan Kikuzashvili, currently Deputy Bank Secretary, would be appointed to be Bank Secretary and Head of the Bank Headquarters, replacing Ofer Hurwitz. Meital Harush, currently serving as Manager, LIVE and Direct Banking Sector, would be appointed Deputy CEO and Manager, Human Capital and Resources Division, replacing Nissan Levi, who had announced his intention to conclude their term in office.

The Board of Directors also approved the creation of two new sectors: Banking Operation Sector and Enterprise-Wide Projects Sector, whose managers would become part of Bank management. The Banking Operation Sector, to include *inter alia* the back-office operations, engineering and banking processes, clearing house and mortgage insurance agency, would be headed by Micha Argaman, currently Deputy Manager of the Human Capital, Resources and Operations Division. The Enterprise-Wide Projects Sector, to be responsible *inter alia* for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies, would be headed by Tal Ben Ari, until recently VP and Manager, Finance Division of Union Bank.

These appointments and re-organization would become effective on April 1, 2023.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name:	Galit Weizer
Start of term in office:	July 2011
Education:	CPA; Graduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience:	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Corporations Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative thereof.

Pursuant to provisions of Section 8 of the Internal Audit Law, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Israeli subsidiaries of Bank Mizrahi Tefahot, including Bank Yahav. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Conduct of Banking Business Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than handling public complaints. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2022, the Internal Auditor is entitled to 12,199, 24,594 and 36,043 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2019, 2020 and 2021 Allotment Programs, respectively, as approved by the Mizrahi Tefahot Board of Directors.

The Internal Auditor is also entitled to up to 32,233 options to purchase such ordinary shares, in conformity with the 2022 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors assumes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office – unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

In 2022, Internal Audit work was based on a multi-annual audit plan focused on risk for a 3-year period from which an annual work plan was derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.

In 2022, Internal Audit assisted the Union Bank merger processes in this regard, with assessment of the effectiveness of controls in major processes in the Union Bank merger, primarily implementation and progress of the transition plan. Audit representatives also served as observers on major committees established for the merger process at various Bank divisions.

Considerations in determining the multi-annual audit plan

Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

– Risks surveys conducted at the Bank.
– Regulatory requirements arising from directives of the Supervisor of Banks.
– Basel directives and the ICAAP process.
– Current audit reports of the Bank of Israel.
– Findings in audit reports of the Audit Division.
– Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan prepared by the Internal Auditor, is brought up for discussion by the Board of Directors' Audit Committee and sent to the Chairman of the Board of Directors and to the Bank President & CEO. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Consequently, the multi-annual internal audit work plan for 2022-2024 was approved by the Bank Board of Directors on February 14, 2022.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as a basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks, the Chairman of the Board of Directors and the Audit Committee. The Audit also refers to issues as requested by Bank management. The annual work plan for 2022 also included reference to the Union Bank merger.

Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the Chairman of the Board of Directors and to the Bank President & CEO. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on February 14, 2022, the Board of Directors approved the annual Internal Audit work plan for 2022.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Union Bank and Bank Yahav, for which a separate audit plan was submitted and approved in 2022 by their Boards of Directors.

In conformity with Proper Conduct of Banking Business Directives 306 and 307, in 2020 local Internal Auditor firms were appointed at Bank branches in London and Los Angeles. In conformity with Proper Conduct of Banking Business Directive 307, the Internal Auditor ensures that proper Internal Audit is conducted at these branches. The work plans of local Internal Auditors are included in the work plan of the Internal Audit Division, discussed by the Audit Committee and approved by the Bank Board of directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2022, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1)53	(3)8	(2)3

(1) Includes 9 full-time positions for audit at Bank Yahav, including outsourcing equivalent to 6 full-time positions.

(2) Includes use of external service providers overseas.

(3) Includes one temporary position.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

– Various legal requirements, including provisions of the Internal Audit Law, 1992, Banking Regulations (Internal Audit), and regulatory authorities’ instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307 concerning "Internal Audit function".
– Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee are of the opinion that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, inter alia, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank’s IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Summaries of all audit reports issued in the previous period are submitted to Audit Committee members once every quarter and to the Board of Directors plenum – once every six months. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

In August 2022, a report about the performance of the Internal Audit work plan for the first half of 2022 was distributed and was discussed by the Audit Committee on August 15, 2022. The summary report of Internal Audit in 2022 was distributed in February 2023 and discussed by the Audit Committee on February 13, 2023. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee are of the opinion that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are reasonable under the circumstances and would realize the objectives of internal audit.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2022: Salary amounting to NIS 1,222 thousand, bonuses amounting to NIS 655 thousand (including retention bonus amounting to NIS 187 thousand), social benefits amounting to NIS 337 thousand, share-based payment amounting to NIS 430 thousand and other benefits valued at NIS 107 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2022 amounted to NIS 2,751 thousand. The outstanding balance of loans at standard terms, as of the end of 2022, amounted to NIS 52 thousand. For more information about the officer remuneration policy, see Note 22.A.3 to the financial statements.

The Board of Directors assumes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees for the Group[(1)(2)(3)(4)]

NIS in thousands

	Consolidated		The Bank	
	2022	2021	2022	2021
For audit activities[(5)]:				
Independent auditors[(6)]	7,921	7,900	6,739	6,684
Other independent auditors	1,354	1,344	507	447
Total	**9,275**	**9,244**	**7,246**	**7,131**
For audit-related services:				
Independent auditors	637	411	637	411
Other independent auditors	-	-	-	-
For tax services[(7)]:				
Independent auditors	18	18	-	-
Other independent auditors	220	392	126	211
For other services[(6)(8)]:				
Independent auditors	3,737	3,495	3,517	3,275
Other independent auditors	447	265	-	-
Total	**5,059**	**4,581**	**4,280**	**3,897**
Total fees to independent auditors	**14,334**	**13,825**	**11,526**	**11,028**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.
(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.
(3) Includes fees paid and accrued.
(4) The Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.
(5) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.
(6) Includes other independent auditors in overseas branches.
(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.
(8) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

NIS in thousands

Details of remunerated party[1]		2022								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contributions[4]	Share-based payment[5]	Value of additional benefits[6]	Total[7]	Balance as of December 31, 2022	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,976	–	707	–	93	3,776	–	–	21
Moshe Lari[9]	President & CEO	2,990	–	714	512	135	4,351	824	9.6	20
Shevy Shemer[10]	Vice-president, Manager, Retail Division	1,787	910	369	450	100	3,616	608	5.6	186
Ofir Morad[11]	Vice-president, Manager, Business Banking Division	1,220	992	341	600	106	3,259	1,930	6.2	342
Ayala Hakim[11]	Manager, Mizrahi Tefahot Technology Division Ltd.	1,205	981	379	600	94	3,259	312	2.8	66

Details of remunerated party[1]		2021								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contributions[4]	Share-based payment[5]	Value of additional benefits[6]	Total[7]	Balance as of December 31, 2021	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,888	–	589	–	102	3,579	98	0.8	13
Moshe Lari[9]	President & CEO	2,888	105	713	217	131	4,054	827	10.0	23
Israel Engel[12]	Vice-president, Manager, Retail Division	1,181	622	259	600	104	2,766	–	–	183
Ofir Morad[11]	Vice-president, Manager, Business Banking Division	1,177	590	297	600	102	2,766	2,042	4.9	775
Adi Shachaf[10]	Vice-president, Manager, Financial Division	1,146	519	454	586	61	2,766	683	6.5	15
Shevy Shemer	CEO of Union Bank	2,047	966	880	–	–	3,893	–	–	1,256
Shaul Gelbard	CEO of Bank Yahav	1,425	822	669	–	–	2,916	–	–	33

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements.

(9) Mr. Moshe Lari – On June 8, 2020, the Bank's Board of Directors approved the appointment of Mr. Moshe Lari as Bank President & CEO. Mr. Lari started their term in office as full-time Bank President & CEO on September 16, 2020. For more information about Mr. Lari's employment terms, see Appendix D to report dated August 27, 2020 (reference: 2020-01-085165) as well as Note 22.A.2 to the financial statements.

(10) Ms. Shevy Shemer – As from April 1, 2022, employed pursuant to an individual employment agreement for an unspecified term.
Details of remuneration for 2022 includes NIS 1,433 thousand with respect to the period Ms. Shevy Shemer served as CEO of Union Bank, as follows:
Salary: NIS 877 thousand; Bonuses: NIS 420 thousand; Social benefits: NIS 136 thousand.

(11) Officers employed pursuant to an individual employment agreement for an unspecified term:

Mr. Ofir Morad	– Dated January 1, 2014.
Mr. Adi Shachaf	– Dated September 16, 2020.
Ms. Ayala Hakim	– Dated July 1, 2013
Mr. Adi Shachaf	– Dated September 16, 2020.

For more information about employment terms, see Note 22.A.3 to the financial statements.

(12) Mr. Israel Engel – Served as officer from June 15, 1999 through March 31, 2022.

Transactions with controlling shareholders and related parties

Pursuant to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Amendment"), the Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on January 16, 2023, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the criteria specified by the Audit Committee, is an immaterial transaction.

Banking transaction

Definition of "unusual transaction" – a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the criteria specified by the Audit Committee shall be deemed to be, for this matter, a "material transaction":

"Market terms" – terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest. Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Business Directive 312, with Bank customers who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with it; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply – as for Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Business Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

	December 31, 2022					
Group of controlling shareholders[(2)]	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Investment in securities	Total indebtedness(1)
Wertheim Group and private companies it controls	7	-	-	-	-	7
Relatives of Wertheim Group and private companies they control	17	2	-	1	-	20
Total – Wertheim Group	**24**	**2**	**-**	**1**	**-**	**27**
Ofer Group and private companies it controls	-	-	-	-	-	-
Relatives of Ofer Group and private companies it controls	30	23	16	-	-	69
Reporting entities controlled by relatives of Ofer Group						
OPC Energy Ltd.	-	105	1	33	2	141
Oil Refineries Ltd.	263	11	-	95	12	381
Israel Chemicals Ltd.	-	-	-	-	47	47
Total – Ofer Group	**293**	**139**	**17**	**128**	**61**	**638**

	December 31, 2021					
Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Investment in securities	Total indebtedness(1)
Wertheim Group and private companies it controls	38	2	-	-	-	40
Relatives of Wertheim Group and private companies they control	-	-	-	-	-	-
Total – Wertheim Group	**38**	**2**	**-**	**-**	**-**	**40**
Ofer Group and private companies it controls	11	-	-	-	-	11
Relatives of Ofer Group and private companies it controls	7	4	-	-	-	11
Reporting entities controlled by relatives of Ofer Group						
OPC Energy Ltd.	-	100	-	-	2	102
Oil Refineries Ltd.	222	68	-	-	6	296
Israel Chemicals Ltd.	-	25	-	-	50	75
Israel Corporation Ltd.	-	1	-	-	-	1
Total – Ofer Group	**240**	**198**	**-**	**-**	**58**	**496**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.
(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2021.

B. Deposits

Group of controlling shareholders	Balance as of December 31, 2022	Highest balance in 2022
Wertheim Group and private companies it controls	11	17
Relatives of Wertheim Group and private companies it controls	109	510
Reporting entities controlled by relatives of Wertheim Group		
Quick Super Online Ltd.	15	50
Total – Wertheim Group	**135**	**577**
Ofer Group and private companies it controls	113	127
Relatives of Ofer Group and private companies it controls	156	180
Reporting entities controlled by relatives of Ofer Group		
OPC Energy Ltd.	743	813
Oil Refineries Ltd.	212	212
Israel Corporation Ltd.	718	718
Total – Ofer Group	**1,942**	**2,050**

Group of controlling shareholders	Balance as of December 31, 2021	Highest balance in 2020
Wertheim Group and private companies it controls	538	568
Relatives of Wertheim Group and private companies it controls	-	-
Reporting entities controlled by relatives of Wertheim Group		
Quick Super Online Ltd.	50	50
Total – Wertheim Group	**588**	**618**
Ofer Group and private companies it controls	4	4
Relatives of Ofer Group and private companies it controls	96	130
Reporting entities controlled by relatives of Ofer Group		
OPC Energy Ltd.	279	1,084
Oil Refineries Ltd.	62	367
Israel Corporation Ltd.	385	447
Israel Chemicals Ltd.	116	117
Gadiv Petrochemical Industries Ltd.	-	1
Total – Ofer Group	**942**	**2,150**

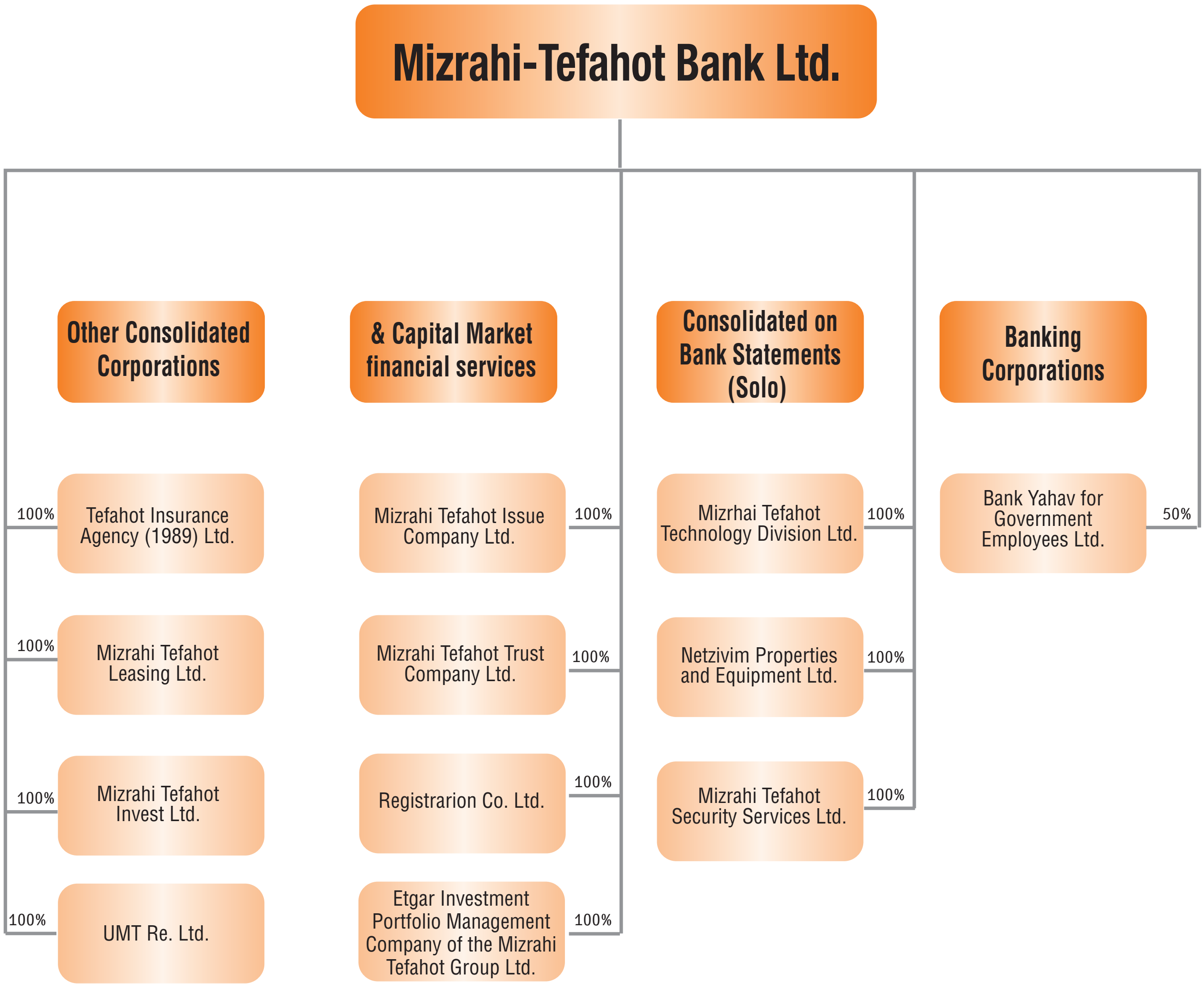
To the best of the Bank’s knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On March 7, 2022, the Bank Board of Directors approved, after approval by the Remuneration Committee, contracting by the Bank of a Board member and officer liability insurance policy, for a term of 12 months as from April 1, 2022 pursuant to Regulation 1B1 and pursuant to Regulations 1A1 and 1B(a)(5) of the Corporate Regulations (Relief for transactions with interested parties), 2000.

This insurance policy covers, inter alia, the Bank President & CEO, controlling shareholders of the Bank and relatives thereof. For more information see Immediate Report dated March 7, 2022 (reference: 2022-01-026989).

Other information about the Bank and its management

Key holding structure of the Bank



See Note 15 to the financial statements for details.

Controlling shareholders

The Controlling Shareholders of the Bank as of December 31, 2022 are Wertheim Group and Ofer Group.

Holdings of Wertheim Group are through M. W. Z. (Holdings) Ltd. And F&W (Registered Partnership) holding, as of December 31, 2022, 7.30% and 13.09%, respectively of capital and voting rights.

Holdings of Ofer Group are through L.I.N (Holdings) Ltd., which holds, directly and through L.A.B.M. (Holdings) Ltd. (a wholly-owned subsidiary thereof) as of December 31, 2022 21.19% of capital and voting rights in the Bank.

Wertheim Group

On September 21, 2022, L.I.N. (Holdings) Ltd. ("L.I.N") transferred to L.A.B.M. (Holdings) Ltd. ("L.A.B.M"), a wholly-owned subsidiary of L.I.N, 40,000 ordinary Bank Mizrahi Tefahot shares of NIS 0.1 par value each, against allocation of additional capital in L.A.B.M, pursuant to Section 104a of the Income Tax Ordinance. For more information see Immediate Report dated September 28, 2022, (reference no. 2022-01-121297).

On October 12, 2022, M.W.Z (Holdings) Ltd. transferred to F&W Registered Partnership 150,000 shares of Bank Mizrahi Tefahot Ltd. to make up the controlling interest. These shares are un-encumbered and are held in trust by a Trust Company.
For more information see Immediate Report dated October 23, 2022, (reference no. 2022-01-128869).

Shareholder agreements

L.A.B.M. (Holdings) Ltd. Of Ofer Group and Feinberg-Wertheim (Registered Partnership) of Wertheim Group are party to a cooperation agreement for exercising rights associated with Bank shares, dated October 6, 1994 (hereinafter: ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2022 amounts to NIS 668 million, compared to NIS 857 million at the end of 2021. The decrease in balance of buildings and land is primarily due to sale of real estate properties; For more information see "Significant Events in the Bank Group's Business" in the Report of the Board of Directors and Management for 2022.

In conformity with the resolution by the Bank’s Board of Directors to relocate all units of Bank management to a single central site in Lod, in 2019 a project was approved for construction of this site, at a total cost of NIS 322 million (including acquisition of the land, approved and carried out in 2017). This project would last for several years.

In 2022, construction work started, after planning of the building continued in 2021 and most of the excavation work has been completed. The total project budget was revised by the Bank Board of Directors, currently at NIS 389 million. Moreover, the construction permit for above-ground areas is expected in February 2023.

Other than the foregoing, in 2023, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles).

For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy below.

Intangible assets

The Bank Group has data base entries of customers and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".

For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1 to the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors).

Early in 2021, responsibility for international operations and overseas affiliates was re-assigned from the Finance Division to the Corporate Division. Furthermore, responsibility for private banking operations was re-assigned to the Retail Division.

The current organizational structure of the Bank is as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (Internet, telephone, SMS, fax and video chat). The division also includes the departments which provide financial and retirement advisory services offered to customers. The Division is also responsible for the subsidiary, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. As from the end of 2022, it is also responsible for the subsidiary Mizrahi Tefahot Leasing, involved in financial leasing and car loans. Since early 2021, the Division is responsible for private banking operations and activity by foreign residents and new immigrants through, *inter alia*, the private banking units in Israel.

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. In January 2023, the Business Sector was expanded with a new center established – Sharon Center. The division also includes other units providing specialized services for customers in specific sectors: Construction and real estate sector, foreign trade sector and international operations, which also includes responsibility for international operations of the Group, as well as responsibility for overseas affiliates and the diamonds business center. The division also operates the special customer sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Customer Service Sector which supports all financial market operations, providing Back Office services and provident fund operations. This division is also in charge of the capital market subsidiary, Mizrahi Tefahot Trust Company Ltd.

Technology Division – in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Directive 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Risks Control Division – this division includes the various risks control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Capital, Resources and Operations Division – this division includes management of human resources, training, logistics (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility. This division includes an engineering and operations branch, including the Process Engineering Department, in charge of back-office banking operations, bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse.

Marketing, Advertising and Corporate Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Financial Information and Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt. This division includes the Information, Analysis and Planning Department, which is responsible for supervision and control over Bank budget, control over subsidiaries, measuring profitability of branches and monitoring Bank work plans.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Anticipated changes to organizational structure

As from April 1, 2023, two new sectors would be established: Banking Operation sector and Enterprise-Wide Projects sector.

The Banking Operation Sector, would include *inter alia* responsibility for back-office operations, engineering and banking processes, clearing house and mortgage insurance agency.

The Enterprise-Wide Projects Sector, would include *inter alia* responsibility for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies. For more information see chapter "Significant developments in human capital and administration" in the Report of the Board of Directors and Management.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employee rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- Caring for employees' welfare – Employees' welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

	2022[1]					
	In the bank	**Overseas branches**	**Total for the Bank**	**Subsidiaries in Israel**	**Subsidiaries overseas**	**Total for the Group**
Number of full-time equivalent positions as of December 31, 2022	6,431	90	6,521	1,002	–	7,523
Number of full-time employees based on monthly average	5,848	86	5,934	1,702	–	7,636

	2021					
	In the bank	**Overseas branches**	**Total for the Bank**	**Subsidiaries in Israel**	**Subsidiaries overseas**	**Total for the Group**
Number of full-time equivalent positions as of December 31, 2021	5,619	79	5,698	1,934	–	7,632
Number of full-time employees based on monthly average	5,367	76	5,443	1,977	–	7,420

Below is the distribution of number of positions in the Group by operating segment[(1)(2)(3)]:

	As of December 31	
Operating segment	**2022**	**2021**
Households	4,407	4,490
Private banking	183	108
Small businesses	1,486	1,612
Commercial banking	359	311
Business banking	822	776
Financial management	266	335
Total	**7,523**	**7,632**

(1) Data through December 31, 2022 include 373 former Union Bank employees whose employment was terminated in early 2023.

(2) Composition is by operating segments based on management approach. For more information see Note 29 to the financial statements.
(3) Including Head Office employees that are allocated pro-rata to the various segments.

Cost of salary per employee position

	2022		2021	
	Excluding variable remuneration components	**Including variable remuneration components**	**Excluding variable remuneration components**	**Including variable remuneration components**
Salary per employee position	333	398	284	338
Cost of salary per employee position	456	527	410	471

Human resource management

Bank management regards all Bank employees and managers as a significant component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.

The Bank invests in development of Bank staff and management, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through training, mentoring and promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2022, the Training Center took part in strategic enterprise-wide campaigns inter alia through reinforcement and deployment of business skills and new support systems among bankers and continued deployment of the Bank's human service concept. Use of digital tools increased, and the mix of training methods was expanded – in-person or online training, in-person studying in groups, interactive aids, VOD library of training videos, podcasts, professional and managerial mentoring, games and so forth. The Training Center continues to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers, jointly with and assisted by the Training Center, lead organizational change and are responsible for employees' professional skills through mentoring and training.

The Training Center acts to develop Bank managers through managerial training, offered to them throughout their term in office, as well as management cadre tracks in preparation for their next managerial roles. In 2022, management training was delivered through: training and simulation, online presentations and podcasts. The Organizational Development and Training Division is applying diverse measures to develop intra-organizational communication channels. As well as conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year, as well as development targets for the coming year.

The Training Center conducted training for onboarding Union Bank employees, by creating a detailed training program for each incoming employee, and by preparing for change management and deployment of a uniform organizational culture across the merged Bank.

Training expenses in 2022 amounted to NIS 15 million, compared to NIS 8 million in 2021.

In 2022, all Group employees attended training (in-person and online), for a total of 48,650 training days, compared to 42,960 training days in 2021.

For more information about human resource management, see also the 2021 Corporate Governance Report on the Bank website:

-Hyperlink Removed- >> about the bank >> investor relations

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employees' Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employees' Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav** – Bank Yahav employee representatives empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

E. Union Bank

– Employee Union of Union Bank Le-Israel Ltd. – empowered to sign on behalf of Union Bank employees (clerks) collective bargaining agreements applicable to Union Bank employees (clerks).

– Manager and Authorized Signatory Association of Union Bank Le-Israel Ltd. – empowered to sign on behalf of managers and authorized signatories at Union Bank collective bargaining agreements applicable to managers and authorized signatories at Union Bank.

– Employee Union of Union Bank Systems Ltd. – empowered to sign on behalf of employees of Union Bank Systems Ltd. collective bargaining agreements applicable to employees of Union Bank Systems Ltd.

Employment terms of employees represented by the Bank's Employees' Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For details see Note 22 to the financial statements.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank – see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements. The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank. The seniority pay increase for employees hired by the Bank as from August 17, 2017 would be revised at the start of each year, to a pay increase of up to 3% per year (of their base pay) for employees with over 22 years of service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Union. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

During the term of the payroll agreement for 2016-2021 and subject to achievement of return on equity targets, the Bank paid to employees a return bonus.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On December 20, 2018, a collective bargaining agreement was concluded with the Managers' Council, with respect to wages and work conditions for 2018-2022. This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global over-time and expense reimbursement for car expenses, education and studies. This agreement also includes a voluntary retirement program, increase in the number of individual employment contracts, as well as calm labor relations throughout the term of the agreement.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003, 2006 and 2018, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employees’ Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Labor and payroll agreements at Bank Yahav

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2018-2022.

Labor and payroll agreements at Union Bank

On August 9, 2017, Union Bank signed a new collective bargaining agreement with the clerks employee union at Union Bank, which governs labor and remuneration at Union Bank in 2014-2018.

On January 13, 2020, Union Bank signed a new collective bargaining agreement with the Manager and Authorized Signatory Association of Union Bank, which governs labor and remuneration at Union Bank in 2019-2022.

On October 1, 2017, Union Bank signed a new collective bargaining agreement with Employee Union of Union Bank Systems Ltd. which governs labor and remuneration at Union Bank, for 2.5 years from the signing date and pending any different notice, is renewed annually for a further 12 months.

Significant Agreements

A. Employment agreements signed with the Employees' Council, the Manager and Authorized Signatory Association and the Technology Division Employees' Committee. For more information see chapter "Human Resources" above.

B. Indemnification letters. For more information see Note 26.C. (4-9) to the financial statements.

C. Agreements for co-issuing debit cards with the following: ICC Ltd., Diners Club Israel Ltd. (hereinafter: "ICC Group"), Isracard Ltd. and/or Europay (Eurocard) Israel Ltd., Poalim Express Ltd. of Isracard Group and Leumi Card Ltd. For more information see Note 26.C.13 to the financial statements.

D. Agreement between the Government of Israel and the Bank, for provision of loans from bank sources to eligible Ministry of Construction and Housing recipients and framework agreement between the Government of Israel and the Bank with regard to provision of loans to eligible recipients from State funds. For more information see chapter "Household segment" above.

E. Agreement between Igud Systems Ltd. (hereinafter: "Igud Systems") and Mizrahi Tefahot Technology Division Ltd. (hereinafter: "Technology Division") and the Employee Union of Igud Systems, which governs the onboarding of Igud Systems employees and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division. See Note 22 to the financial statements for additional information.

F. Agreement between the Bank and subsidiaries thereof and Mivne Real Estate (K.D.) Ltd. for sale of properties owned by the Bank Group. For more information see Note 5 to the financial statements.

Legislation and supervisory directives applicable to Bank Group operations

Laws and regulations

Financial Information Services Law, 2021

In November 2021, as part of the Economic Plan Law (Legislation amendments for implementation of economic policy for 2021 and 2022 budget years), 2021, the Knesset passed the Financial Information Services Law, 2021. The Law became effective on June 14, 2022, but an earlier effective start date has been specified for parts thereof.

The Law complements and expands an arrangement set by the Bank of Israel in Proper Conduct of Banking Business Directive 368 regarding "Open banking".

The Law primarily governs financial information services, including collection of financial information, delivery of financial information to another part and use of financial information for the following services: Providing summary financial information for a customer or anyone on behalf thereof; cost comparison service; brokerage; advisory service with regard to economic conduct; providing an offer by the service provider to contract with the customer with regard to a financial product or a financial service.

Information about a customer account holder may only be provided with consent of the customer. The Law governs how such consent must be obtained and the scope of information to be provided, based on "information baskets" specified in the Law.

The Law imposes mandatory provision of information for several types of information sources, and expands the scope of the arrangement set forth in Proper Conduct of Banking Business Directive 368, such that now this requirement applies not only to banking corporations, but also to institutional investors, Stock Exchange members, portfolio managers, licensed providers of credit services, credit brokerage or credit and deposit services. Typically, such information is provided free of charge.

The Law requires mandatory licensing of financial information service providers. The mandatory licensing does not apply to financial entities which are information sources, including banking corporations, but they are required to obtain approval from the relevant regulator (in the case of the Bank – from the Bank of Israel). Subject to such approval, the Bank may also provide financial information services. The Bank has applied to the Bank of Israel for such approval.

The Law imposes on financial information service providers fiduciary duty and duty of care, mandatory non-disclosure and information security, and further stipulates provisions to avoid conflict of interest, misleading and undue influence. A written agreement with the customer, including proper disclosure, is required. The Law also imposes liability for defective information. The Law stipulates sanctions for certain breaches by service providers or by information sources. The Bank applies provisions of the Law which are in effect.

Revision of the Law has no material impact on the Bank's financial statements.

Banking Law (Customer Service) (Amendment no. 34) (Commission cap for housing loan application), 2022

The Law was made public on June 22, 2022, stipulating that a banking corporation may only charge a commission of up to NIS 360 for processing a housing loan application. The Law became effective on August 22, 2022. Bank management estimates that this Law should result in a non-material decrease in Bank revenues from such activity.

Banking Regulations (Licensing) (Bank with large-scale operations), 2023

On January 30, 2023, the Knesset Finance Committee approved Banking Regulations (Licensing) (Bank with large-scale operations), 2023, which *inter alia* revised the definition of a bank with large-scale operations, which now also applies to the Bank.

According to the Regulations, the Bank would be required to reduce credit card facilities by 25%, from January 31, 2027 through January 31, 2030, compared to the relevant facilities (facilities in excess of NIS 10,000) for credit cards in 2015. The Minister of Finance announced their intention to eliminate this restriction in the upcoming Arrangements Law.

Moreover, as from January 31, 2026, the share of new cards issued by a credit card issuer of a single bank may not exceed 52%. This is in effect for 3 years.

Supervisor of Banks

Circulars and public reporting directives

Transition from LIBOR interest

As from January 1, 2022, the Bank discontinued the use of LIBOR interest rates for all new transactions.

Ahead of termination of USD LIBOR rates as from June 30, 2023, the Bank would transition all existing instruments still using USD LIBOR interest rates to use alternative interest rates, in conformity with global regulation.

Open Banking standard implementation in Israel

On February 24, 2020, the Bank of Israel issued a circular containing Proper Conduct of Banking Business Directive 368 "Implementation of Open Banking Standard". The circular describes the evolution of open banking around the world and the standards created, and elaborates legislation in Israel that has resulted in the Supervisor of Banks promoting the open banking project and issuing a directive in this regard. The directive includes instruction for implementation of the open banking standard, rules for quality of service and customer consent, and guidelines for information architecture and security. The directive applies to banks and credit card companies operating in Israel, with respect to individual accounts. The directive further stipulates instruction with respect to corporate governance, including responsibilities of the Board of Directors and senior management in setting policy, appropriate resource allocation and supervision of implementation of the management framework for open banking. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular in view of developments in the Corona Virus outbreak, with revised effective start dates for Proper Conduct of Banking Business Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

On April 5, 2021, the Bank of Israel issued a circular which delays by a few months the planned implementation, in order to allow for proper reference to various issues raised during preparations for implementation, due to the wish to establish the open banking system. Stage 2 was delayed to January 31, 2022 (from October 10, 2021) and stage 3 was delayed to May 31, 2022 (from March 31, 2022). This delay should allow the banking system to stabilize the services in the system, so that system availability would be robust and its services would provide a response for market demand.

On January 17, 2022, the Bank of Israel issued a circular regarding "Implementation of open banking standard in Israel", which updates the effective start dates of mandatory provision of access to information about customer activity in debit cards, and mandatory provision of access to the customer's checking account for payment initiation, as stipulated in the directive. The schedules for providing access to information about borrowing and deposits were aligned with those set forth in the Law. The effective start date for information about debit cards and payment initiation was revised to March 31, 2022, and the effective start date for information about credit, savings and deposits was revised to October 31, 2022.

On February 23, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending the directive to align it with provisions set forth in the Financial Information Service Law. The effective start date of the directive is the same as that of the Law. As from June 30, 2023, Chapter H of Proper Conduct of Banking Business Directive 367 would no longer apply to individual accounts, and would continue to apply for information summary services for corporate customers through December 31, 2024.

On May 15, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions with regard to prohibition of receiving benefits and adding Section 57b to the Directive, in conformity with the Supervisor's authority pursuant to the Financial Information Service Law, as well as amendments to the actual standard. The effective start date of Section 57b of the Directive is on the effective start date of the Financial Information Service Law (as of the date of this publication: June 14, 2022).

On July 24, 2022, the Bank of Israel issued a letter regarding implementation of the Financial Information Services Law and the Open Banking standard. The circular emphasizes that banking corporations are required to act as information sources, and in future - as financial information service providers, and to ensure that work processes include at least a policy on service level, implementation of controls for availability and response times, information integrity and quality, implementation of regulatory directives by an internal committee dedicated to this matter and conducting internal audit processes. The letter seeks to review the qualification processes and to ensure that any malfunctions with regard to service or availability are addressed within a reasonable time frame. The Bank is preparing to respond to and implement the directives in this letter.

On January 22, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions regarding, *inter alia*, provision of access to information about securities, service level, use of certificates and approval of operations as payment initiator. The effective start date of the amendments in the circular is the issue date of the circular, except for presentation of information about securities, which is June 14, 2023, and except for amendments regarding handling of malfunctions, response times and service level, which is June 30, 2023.

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

On March 19, 2020, the Bank of Israel issued a circular containing Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)". The directive lists multiple relief measures formulated into an interim directive, in view of the Corona Virus outbreak and its economic implications in Israel and overseas. The adjustments in the directive are designed to provide banks with business flexibility required at this time. Further adjustments to the directive were issued in circulars dated March 31, 2020, April 1, 2020, April 7, 2020, April 27, 2020, May 5, 2020, May 20, 2020, June 1, 2020, June 23, 2020, September 16, 2020, September 22, 2020, November 15, 2020, December 3, 2020, December 17, 2020, January 7, 2021, March 22, 2021, July 19, 2021, July 26, 2021, August 9, 2021, September 30, 2021, December 2, 2021, January 18, 2022 and May 15, 2022. The Bank has applied some of the relief measures listed in the directive, as well as further relief measures based on the Bank's business decisions, including the following:

- Suspension of account and account holder restriction due to checks refused for insufficient funds, as from March 4, 2020 (this suspension was terminated in view of instruction to terminate the suspension period).
- Debit card issue to customers that do not hold a debit card and withdraw their allowance at the branch (this was issued as a non-recurring measure).
- Implementation of instructions with regard to reduced branch opening hours and to reduced operations and movement in the public space (these instructions were gradually rescinded later on, in view of relief made public by the Government. All branches in the banking system were opened to the public and provide all services as provided prior to the crisis. A circular dated January 18, 2022 due to a renewed outbreak of the virus included revised directives with regard to limited branch opening and service provision to customers.
- Relief for restrictions on extending residential mortgages (relief concluded) and on dates for issue of letter of intent and settlement confirmation (elimination of interim directive which allowed the Bank to approve general purpose loans with LTV up to 70%, rather than LTV up to 50%).
- A circular dated December 27, 2021 noted that as from January 1, 2022, the interim directive would expire, except for specific provisions, including revision of Directive 329 with regard to "Restrictions on extending residential mortgages" with respect to calculation of capital requirement.
- Relief for E-banking, providing instructions by telephone and giving precedence in queues to senior citizens (On December 30, 2020, an amendment to Directive 426 with regard to "Providing professional call center service" amended the age of customers to be given precedence in queues, from 75 to 70, under routine conditions as well).
- Delay in repayment of commercial loans and residential mortgages (due to continuation of the Corona Virus pandemic and expansion of the outline to delay loan repayments, on September 30, 2020 the Bank of Israel issued a circular adding reporting directive 889C "Reporting of repayment delay under unusual condition (monthly)".

- On October 11, 2020 and on December 3, 2020, the Supervisor of Banks issued supervisory highlights concerning further changes to loan terms and conditions and regarding the additional outline for repayment delay as part of the Corona Virus pandemic, with regard to risk management, public reporting, classification and internal control.
- On May 15, 2022, the relief provided with regard to leverage ratios was extended through December 31, 2023. A banking corporation applying this relief at the time would be required to resume the required leverage ratio prior to the interim directive within two quarters.

Application of this circular has no material impact on the Bank's financial statements.

AML and terror financing risk management

On May 9, 2022, the Bank of Israel issued a circular with regard to AML and terror financing risk management (amendment of Proper Conduct of Banking Business Directive 411). Due to increase in customer activity involving virtual currency and since the Supervisor of Banks regards payment services provided by banking corporations incidental to activity involving virtual currency as carrying high risk with regard to AML and prohibition of terror financing, the amendment to the Directive stipulates the unique requirements of the banking system with regard to AML and prohibition of terror financing risk management associated with providing payment services involving activity in virtual currency.

The Bank applies the updates which became effective on November 9, 2022. Application of this circular has no material impact on the Bank's financial statements.

On September 19, 2022, the Bank of Israel issued a circular with regard to AML and terror financing risk management (Proper Conduct of Banking Business Directive 411), extending the validity of Appendix B2 through January 15, 2023.

On December 5, 2022, the Bank of Israel issued a circular with regard to AML and terror financing risk management (Proper Conduct of Banking Business Directive 411), incorporating the Supervisor of Banks' circular dated June 30, 2022 regarding payroll payments to Palestinian employees by bank transfer.

The Bank is applying these circulars. Application of these circulars has no material impact on the Bank's financial statements.

Procedures for extending residential mortgages

On January 31, 2022, the Bank of Israel issued a circular regarding procedures for extending residential mortgages (Proper Conduct of Banking Business Directive 451). The directive stipulates uniform baskets which banking corporations are required to offer to customers. The directive stipulates that the approval in principle would also include 3 uniform baskets, which differ in risk level and frequency. The amendments to the directive include an instruction to banking corporations to provide to the public an online calculator which allows for simulation of various loan mixes over various time frames, including the uniform tracks stipulated in the directive, so as to obtain an estimate of the impact of changes to the loan mix on the monthly payment and total amount payable throughout the loan term.

On July 7, 2022, the Bank of Israel issued a circular with regard to procedures for extending residential mortgages (amendment to Proper Conduct of Banking Business Directive 451), designed in response to questions arising from work by banking corporations on implementation of the requirements in the directive with regard, inter alia, to integration of designated loans in the approval in principle, information provided to customers for review of the viability of early repayment and with regard to content of the online calculator.

The Bank applies the Directive as from August 31, 2022.

Sale of residential mortgages and collaboration in extending residential mortgages

On May 18, 2022, the Bank of Israel issued a circular regarding sale of residential mortgages and collaboration in extending residential mortgages (amendment to Proper Conduct of Banking Business Directive 329B). The directive governs the principles for safeguarding borrower rights in the sold mortgage portfolios, avoiding negative selection that would impact the quality of the Bank's loan portfolio and avoiding development of moral risk for the buying entity.

The directive stipulates requirements for banking corporations, should they extend residential mortgages, to comply with the requirements stipulated in the directive with regard to transaction for sale of loans, syndication and any agreement that governs collaboration in extending residential mortgages.

The Bank applies this directive as from the issue date thereof. Application of this directive has no material impact on the Bank's financial statements.

Advanced payment services

On June 13, 2022, the Bank of Israel issued a circular regarding advanced payment services (Proper Conduct of Banking Business Directive 427). Given the significant increase in use of payment applications, there is a need to regulate aspects of disclosure provided to customers by the current acccount manager and/or by the debit card issuer used to conduct the payment transaction. This directive is complementary to provisions of the Payment Services Law and the effective start date of this directive is January 1, 2023.

A circular dates December 21, 2022 postponed the effective start date of the Directive to February 1, 2023.

The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Cloud computing

On June 13, 2022, the Bank of Israel issued a circular regarding cloud computing (Proper Conduct of Banking Business Directive 362). The Supervisor of Banks regards cloud computing services as an instance of outsourcing, and therefore a banking corporation making use of cloud computing services shall be subject to provisions of this directive, as well as to all provisions of the directive regarding outsourcing. The directive makes a distinction between cloud computing, private cloud and material cloud computing. Banking corporations would be required to set policy on the use of cloud services. The amendments to the directive shall apply as from January 1, 2023.

The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Sale of residential mortgages and collaboration in extending residential mortgages

On October 6, 2022, the Bank of Israel issued a circular regarding sale of residential mortgages and collaboration in extending residential mortgages (Proper Conduct of Banking Business Directive 329B). The Directive stipulates principles for conducting sale and syndication transactions of residential mortgages designed, *inter alia*, to safeguard borrower rights in mortgage portfolios and to avoid negative selection that may impact the quality of the bank loan portfolio, and to prevent creation of moral risk for the acquiring entities.

The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Update to public disclosure requirements of environmental, social and governance (ESG) aspects

On December 31, 2022, the Supervisor of Banks issued a circular updating the public disclosure requirements of environmental, social and governance (ESG) aspects.

The new requirements include the following:

- Expanded disclosure requirements regarding climate risk management – the public reporting directive added examples of topics for which qualitative and quantitative disclosure should be provided with regard to management of environmental risk and opportunities of the banking corporation, including climate risk.
- Reference to involvement of the Board of Directors and management in material ESG issues was expanded, and how the banking corporation determines its influence strategy.
- Social issues – examples were expanded for disclosure of activities by banking corporations in areas such as making services accessible to diverse or disadvantaged populations, dialog with the community and social involvement, as well as diversification, inclusion and equal opportunities in the work environment.

The effective start date of amendments to the circular is with ESG reports for 2022 and thereafter.

The Bank is applying the circular. Application of this circular has no material impact on the Bank's financial statements.

Bank's credit rating

On August 28, 2022, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank ratings unchanged. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook.

Contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On July 26, 2022, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Maalot") approved the Bank's issuer rating of ilAAA / Stable outlook. According to the rating agency: "Confirmation of Mizrahi Tefahot's rating reflects our view, whereby the bank would continue to benefit from its leadership position in mortgages and from the robust economy".

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- by Maalot.

On December 22, 2022, rating agency Fitch Ratings (hereinafter: "Fitch") confirmed the Bank's long-term IDR rating of A with Stable outlook, and the Bank's short-term rating of F1+, and also confirmed the BBB rating of subordinated notes with loss-absorption provisions.

On July 20, 2022, rating agency S&P Global Ratings (hereinafter: "S&P") confirmed the long-term issuer credit rating of A- and the short-term issuer credit rating of A-2. Positive rating outlook. Moreover, the agency confirmed the BBB- rating of contingent subordinated notes with loss-absorption provisions which qualify as Tier II equity, issued by the Bank on April 7, 2021 by international private placement to institutional investors.

On September 30, 2020, Moody's Investors Services rating agency confirmed the Bank's long-term deposit rating at A2 with Stable outlook.

Operating segments – Additional information

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the customer's turnover (annual sales or annual revenues).

The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for business customers other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Below is brief description of supervisory operating segments:

Households – individuals, other than private banking customers, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million.

Institutional investors – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage customer portfolios, as defined by the Supervisor of Banks.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Overseas operations – the aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

The financial information on the Report of the Board of Directors and Management is included based on definitions of supervisory segments.

In addition, the financial statements include – in Note 29 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in customer attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- The Bank's operating segment using the "management approach" are based on customer assignment to the responsible organizational unit in the elapsed period. However, customer attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.
- The attributes specified by management for customer assignment to the responsible division are highly correlated with supervisory definitions.
- However, in some cases it may be that by the "management approach", the final assignment of the customer is based on other parameters, such as: specialization of a certain unit in activity types of customers or past experience working with the customer, which result in business and service-related advantages to customer attribution to the specific division or being part of the same borrower group.
- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
- The difference in definitions is reflected in particular in these segments:
  - Individual customers with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
  - Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Business customers, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
  - Business customers and individual customers at overseas branches, classified under various operating segments based on the management approach, are classified under the overseas activity segment in disclosure of supervisory operating segments.

Exceptions for classification of business customers by turnover

According to the Bank of Israel Q&A File, the Bank classified business customers to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business customer, the customer is classified to the appropriate supervisory operating segment based on the customer's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business customer are not indicative of their total operations and the customer's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such customer to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the customer is typically classified as follows:

Small and micro businesses – total assets on customer balance sheet amount up to NIS 50 million.

Medium businesses – businesses where total assets on the customer balance sheet amount to between NIS 50 million and NIS 215 million.

Large businesses – businesses where total assets on the customer balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to customers in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the customer. For credit, expense set at original cost of capital raised (transfer cost) is attributed to customers, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified capital instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to customers, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the customer at the spread incorporated in the price of the derivative instrument quoted to the customer. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to customers for whom these expenses were recorded.
- Commissions and other revenues are specifically attributed to customers.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch customers using loading factors which reflect the customer operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to customers in non-retail operating segments.

  Intersegment settlement reflects the fact that branches also serve non-retail customers. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on customers based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above. In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to customers, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to customers.
- Fixed assets are attributed based on appropriate ratios.

Household Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the customer's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, customers are not allowed to exceed their determined credit limit.
- **Investments**: Providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans**: General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing**: Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers. There is also financial leasing and car loan activity under the subsidiary Mizrahi Tefahot Leasing.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing customers to diversify risk.

In view of the low Bank of Israel interest rates in recent years, the share of loans bearing fixed interest in the non-linked and CPI-linked track has increased. However, in the second half of 2022 this trend declined due to the sharp increase in Bank of Israel interest rate and CPI.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to customers who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Residential Mortgages Law.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Buyer price" program.

Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.

Bank revenues from all loans to eligible borrowers under State responsibility in 2022 amounted to NIS 14 million, compared to NIS 17 million in 2021 and to NIS 23 million in 2020.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to residential mortgages are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

In order to maintain the required separation between mortgage and insurance operations, customers are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2022	2021	2020
Life insurance	112	109	100
Property insurance	15	13	15
Total revenues from sale of insurance	**127**	**122**	**115**

Capital market

This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by customers (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services. The Bank also has a subsidiary, Etgar Investment Portfolio Management Company of Mizrahi Tefahot Group Ltd., engaged in management of securities investment portfolios and providing investment advice to Bank customers and to customers of other banks.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with customers in the household segment, the customers a range of credit cards are offered. The Bank offers its customers credit cards that are issued by credit card issuers Isracard, CAL and MAX, according to the customer's request. The Bank also allows customers to make payments using terminals that support EMV technology using various payment apps. The Bank also allows customers to make payments to merchants using the payment apps Apple Pay, Google Pay and payment apps of credit card companies. The Bank also has several products in the credit card sector:

"The Card": A Mizrahi-Tefahot credit card which also serves as the Bank's own customer loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.

For more information about the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 26.C.13 to the financial statements.

"Tefahot Credit Card": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the customer’s repayment ability and the asset already pledged to the Bank, through which the customer can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

Unique services provided by the Bank to segment customers

The key unique service offered by the Bank is Hybrid Banking, which allows customers a multi-channel environment, spearheaded by easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 11 clusters and a team handling business customers. Later on, branch teams have been formed – each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank customers can reach their banker at the branch, or one of the branch team members, by using various communication channels during 12 hours of business, from 8am to 8pm. Thereafter, service is available by phone, 24 hours a day. Moreover, under the household segment, the Bank offers its customers services which express the advantages of the combination of products offered by the Bank to its customers as described above. The Bank offers various benefits in current accounts and credit of customers who take out mortgages, in order to encourage the mortgage customers to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to customers with current accounts in the Bank, in order to encourage these customers to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav customers, based on their activity and attributes.

The unique services that the Bank offers its customers in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Customers may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select customers.

Benefits to mortgage holders: Unique benefits offered to specific groups of customers who have a mortgage account with the Bank. The benefits included an interest-free credit facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the customer's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank customers and to customers of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct and digital channels.

The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target customers in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank an edge in the market while making the customer the focal point, in line with the Bank's strategy in recent years.

Marketers operate in four major areas:

- Direct activity with real estate players – to obtain potential customers.
- Activity with end customers – proactive contract with potential mortgage and checking account customers.
- Synergetic activity with individual customers – to realize the potential synergy of mortgage customers.
- Synergetic activity with business customers and MM customers – businesses, plants, Employee Unions etc.

Bank branches – the Group operates 204 business centers, branches across the country, including 53 Yahav branches (of which 4 branches offer partial service). In conformity with Bank strategy, the expansion of the branch network is being reviewed, primarily with regard to improvement of locations in major cities with emphasis placed on business-rich environments.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the customer's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup for bankers in branches, facilitating transactions and providing information to Bank customers, as part of the combined Hybrid Service provided to customers. This service is provided during extended hours, from 8am to 8pm.

  The banking center provides sale of instant loan services and credit cards as well as customer preservation for non-bank credit cards.

- Mortgage center: This center is at the core of the mortgage segment, providing customers with a range of activities related to mortgages, including filing applications and providing advice on residential mortgages, receiving payments for existing loans and making arrangements and payments for loans in arrears.

  The Hybrid Banking service for mortgages is provided at all Bank branches.

- Sales center: Intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit customers, who are referred directly to the sales center, or by means of outgoing sales calls to potential customers. The sales center also handles sales of Mizrahi Tefahot credit cards, general-purpose loans, refinancing of mortgages from other banks for Bank customers, reinforcing customer loyalty and customer preservation.

- Investment center: This center provides rapid, professional response to capital market customers for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new customers for savings, expanding savings activity for existing customers, while focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank customers with service concerning foreign currency and foreign and Israeli securities.

- On line service – allows customers to receive banking information and execute transactions in your account for a range of banking products available to Bank customers at a reduced cost. This service is available 24 hours a day.

  Bank customers can write directly to their banker through digital channels, including convenient transfer of documents between customer and banker at the branch.

- Account management app – an advanced app featuring login using fingerprint or facial recognition, allowing the customer to view information and to conduct various transactions, at any time and from anywhere. The new app features new, advanced transactions and a new, user-friendly interface.
- Tefahot Touch app – the mortgage app launched this year is used by customers, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. The complex process of obtaining a mortgage is made simpler and more convenient by this app, without losing the human touch. Some of the actions required for taking out a mortgage, which previously required customers to go to the branch in order to conduct them, can now be easily completed using Tefahot Touch. Moreover, this is yet another channel for customers to contact the Bank's mortgage experts.
- Chat service: The Bank allows current and potential customers with regard to investments to chat online with bankers at the Bank.
- WhatsApp service: The Bank allows customers who so wish to use WhatsApp for correspondence with bankers at the Bank.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification mailbox via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- IVR service: This service, available 24 hours a day, is provided to customers who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.
- Automated machines – the Bank provides various direct services to customers through service stations and ATMs. These services primarily include cash withdrawal and deposit, check book ordering and check deposit, loan origination and obtaining information.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of customer needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the customer base, mainly among mortgage customers, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to customers, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to customers.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's customers.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the customers. In 2022, a new player entered the market – the digital bank One Zero. In this year, a banking license was also awarded to a new digital bank about to enter the market - esh.

In 2022, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with customers referred to digital solutions.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue non-bank credit cards directly to customers – This trend accelerated in recent years, due to several significant agreements signed by credit card companies and major retail chains.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

Along with the Increased Competition and Reduced Concentration in Israeli Banking Law, enacted in January 2017, there are several legislative and regulatory efforts under way, which result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, which is being implemented based on the specified milestones.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this competitive environment.

Mortgage operations are subject to Bank of Israel directives, primarily Proper Conduct of Banking Business Directive 451 "Procedures for extending residential mortgages", with the following highlights:

- Definition of "residential mortgage" consisting of two major groups:
- Loans designated for purchase / lease / construction / expansion / refurbishment of a residential apartment, or purchase of land for construction of a residential apartment / interest in a residential apartment (DMEY MAFTEACH).
- Loans for other purposes, secured by a mortgage on a residential apartment.
- Guidelines for providing approval in principle and locking of interest rate.
- Approval in principle to combine three uniform loan compositions, as specified in the Directive.
- Rules for property appraisal by an appraiser.
- Rules for obtaining property insurance and life insurance.
- Provision of information for review of feasibility of early repayment / confirmation with respect to early repayment.
- Adjusting the interest rate in loans subject to adjustable interest rate.
- Loan execution date for determination of the repayment schedule.
- Determination of the base index in a loan.

Extending residential mortgages is also subject to Proper Conduct of Banking Business Directive 329 "Restrictions on extending residential mortgages", with the following highlights:

- LTV cap – up to 75% for a single apartment, up to 70% for an alternate apartment and up to 50% for an investment property.
- Cap on loan payments as percentage of income – up to 50% (above 40%, the weighting of risk assets allocated by the Bank increases to 100%).
- Interest type restriction – up to 2/3 of the loan may be subject to adjustable interest.
- Term restriction – loan term may not exceed 30 years.

For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the residential mortgages portfolio, subject to appropriate risk management.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to customers, emphasizing a personal connection and multiple channels.

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

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The private banking center offers its customers full banking services to their customers, primarily private banking. The products and services offered to customers of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment's customers, in addition to ordinary banking services, while formulating an investment strategy suitable for each customer, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes customer operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** – the Bank offers to segment customers a range of exclusive credit cards issued by Israeli credit card companies, including special loyalty clubs for businesses.

Major markets and distribution channels

The markets addressed by this segment are customers with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the customer, in the organization of professional conferences for the segment's select customers, in introduction of specialized and unique products to the segment's customers, and in efforts to identify and attract new customers on a regular basis.

Small and micro business segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:

Management of checking account facilities: The facilities are determined according to the customer's needs, turnover and judgment of the Bank.

Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc.

Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the customer's activities using technological means, such as: EDI (Electronic Data Inter-charge) online.

Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Capital market

This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment customers a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

As from December 2022, the Bank has been operating in the new State-guaranteed fund for small and medium businesses, after being selected by the Ministry of Finance as a lender in this fund. In this regard, the Bank extends State-guaranteed loans under various tracks.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the customer, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis customers, while segmenting the customers by occupation, size of operation and individual needs.
- Maximize potential profitability for each customer by adopting a comprehensive view of customer activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on customer attributes.
- Expand operations in State-guaranteed foundations.
- Expand geographic deployment of services provided to segment customers.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) in this area. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the customer, providing personal service and comprehensive professional solutions for the full range of customer financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Summary description of the segment (by Management Approach)

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

This segment operates across all economic sectors, primarily industry, solar energy, commerce and services, as well as construction and real estate.

In recent years, new customers are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Customers in this segment are primarily served by the Bank's Corporate Division, primarily by the Business Sector, operating three business centers nation-wide, with additional service provided by the Bank's business centers, business branches and extensive branch network.

Note that in January 2023, the Business Sector was expanded with a new center established – Sharon Center.

Each center has the professional resources required to address all customer needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of customer activity. Thus, customers enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.

Segment customers operating primarily in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector. These customers enjoy service at specialized real estate branches, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.

Customers in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment customers.

Customers are mostly active on the local market. However, customers also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment customers are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivative instruments, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business centers (as from January 2023: four business centers) operating under the Corporate Division, as well as business centers and Bank branches throughout Israel. Customer relations management is conducted by special professionals at the business centers, who are in charge of this and are in constant contact with customers. New customer recruitment is carried out in close co-operation with Bank business centers and branches operating in the Retail Division.

Operations in this segment include development of marketing and business operations based on understanding customer needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for customer needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor customers' financial robustness.

Customers may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the customer base and growth in the activities of the medium business segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new customers and expanding banking services to current customers and to customers for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment customers conduct their financial activity primarily within the banking system, so that competition for this customer segment is significant, since all banks and non-bank financing companies compete for this target audience.

There is also non-material competition in factoring and by credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for customer needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Summary description of the segment (by Management Approach)

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.

In recent years, new customers are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

The major sectors served are: industry, commerce, construction and real estate.

This segment includes market-leading customers with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.

Customers of this segment are served by the Corporate Division of the Bank, primarily by the Big Corporations sector.

Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

All customers receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.

In its activities in this segment, the Bank emphasizes expansion of the current customer base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to customers by the trading room.

Products and services

Segment customers are offered a range of banking and finance products, including: Different types of credit – on call, loans for various terms, different types of guarantees; financing through leading and organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions; trading in derivative instruments; foreign trade activity (financing for credit insurance, importing, exporting and documentary credit) and factoring. These services are supported by a specialized sector at the Bank, which can customize for each customer the relevant product for their business and operating attributes.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national customers based in Israel.

In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas affiliates.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to customers of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** – construction project financing is a unique service, provided by the Bank exclusively to customers in this sector. Within this framework, the customer is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** – a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndications – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – as part of the Bank being a major player in the business credit market. These operations are led by officers who specialize in this area. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and customer managers in the Business Banking Division, supported by the Bank's branches and business centers in Israel and at overseas affiliates.

In order to provide an optimal response to segment customer needs, the servicing of major business banking customers in this segment was placed under the Corporate Sector of the Bank's Corporate Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in syndication, factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for customer needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the customer's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of customer needs and their financial standing, as well as identifying risk associated with customer relationships due, *inter alia*, to anticipated changes in the economy and in the customer sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of customers and to expand business with existing customers and to finance large projects. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them. through, inter alia, the following activities:

- Implement an approach based on total outlook on the business customer, leveraging credit products and offering other products to establish a comprehensive customer relationship.
- Segmentation of business customers, economic sector and other attributes that require specialization, such as legal complexity, inter alia, in combination projects and in urban renewal projects (eviction-construction schemes and National Zoning Plan 38), in infrastructure projects and the high-tech sector, which has specific operating attributes. This is designed to optimally specify their business needs and to provide them with an appropriate professional solution.
- Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain customers, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these customers..

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment customers exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such customers, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to customers of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the customer's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to customer needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business customer and adapting it to the customer's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate customers has seen non-banking entities enter into this area, as well. These entities provide assistance to projects on their own, without cooperation with any banks.

The Bank's primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the customers' needs, readily available and fast service, and maintaining close and personal ties with customers. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investors segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The Bank has agreements in place to provide operating services to provident fund management companies, some are an addendum to sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Banking services also include credit of various types and transactions involving derivatives.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division. In order to provide an optimal response to segment customer needs, the servicing of major customers in this segment was placed under the Corporation Sector of the Bank's Corporate Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for customer needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of customers and to expand business with existing customers. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain customers, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these customers.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable customers and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.

As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial management segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank customers in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.

OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government bonds.

Securities trading – trading securities to provide a solution for Bank customers' activity on the local market and on various world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, bonds, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed nations. The trading room includes a Customer Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the bond portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

At the Bank, the main activity in the bond portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive 342, Proper Conduct of Banking Business Directive 221 – liquidity coverage ratio and Proper Conduct of Banking Business Directive 222 – Net stable funding ratio (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro bond activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity. Bond operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the trading portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity and financing ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign customers trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the customer base and intensifying business activity and customer relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to customers whose financial stability may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management and the chapter "Credit risk" in the detailed Risks Report on the Bank website.

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results overseas

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

– **Los Angeles Branch** – The branch is primarily engaged in commercial banking, financing for real estate transactions, financing for high-tech companies, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's customers are local, Israeli and international customers.

– **London Branch** – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit for high-tech companies, financing for real estate transactions, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's customers are local, Israeli and international customers.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant customers. These branches provide full banking services to their customers, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Major markets and distribution channels

The major markets are local customers, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as customers resident in Israel whose financial and business needs include banking services provided overseas.

Major distribution channels include participation in professional conferences in countries where the affiliates are located, and advertising in the local Jewish community.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the customer-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to customers is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong customer relationships, organizing professional events for select customers and efforts to locate and recruit new customers on a day-to-day basis.

The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risks factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risk (credit and market risk) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant Risk Owners at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

Competition in the segment and changes to it

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to customer preferences.

Bank Mizrahi Tefahot

Appendixes to annual financial statements

2022

Table of Contents

Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[1]

For the year ended December 31

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2022			2021			2020		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			in %			in %			in %
Interest-bearing assets									
Loans to the public[3]									
In Israel	284,495	[7]14,469	5.09	247,531	[7]10,052	4.06	212,769	[7]7,113	3.34
Outside of Israel	4,838	325	6.72	3,552	190	5.35	3,300	186	5.64
Total	**289,333**	**14,794**	**5.11**	**251,083**	**10,242**	**4.08**	**216,069**	**7,299**	**3.38**
Loans to the Government									
In Israel	312	3	0.96	311	1	0.32	212	1	0.47
Outside of Israel	101	8	7.92	223	10	4.48	426	21	4.93
Total	**413**	**11**	**2.66**	**534**	**11**	**2.06**	**638**	**22**	**3.45**
Deposits with banks									
In Israel	4,961	37	0.75	1,504	7	0.47	1,271	9	0.71
Outside of Israel	113	1	0.88	204	–	–	182	2	1.10
Total	**5,074**	**38**	**0.75**	**1,708**	**7**	**0.41**	**1,453**	**11**	**0.76**
Deposits with central banks									
In Israel	77,168	817	1.06	79,726	66	0.08	52,831	61	0.12
Outside of Israel	10,535	197	1.87	10,536	13	0.12	10,289	29	0.28
Total	**87,703**	**1,014**	**1.16**	**90,262**	**79**	**0.09**	**63,120**	**90**	**0.14**
Securities borrowed or purchased in resale agreements									
In Israel	1,108	10	0.90	369	–	–	85	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**1,108**	**10**	**0.90**	**369**	**–**	**–**	**85**	**–**	**–**
Bonds held to maturity and available for sale[4]									
In Israel	14,840	288	1.94	15,476	201	1.30	9,908	90	0.91
Outside of Israel	994	22	2.21	849	7	0.82	651	10	1.54
Total	**15,834**	**310**	**1.96**	**16,325**	**208**	**1.27**	**10,559**	**100**	**0.95**
Bonds held for trading[5]									
In Israel	218	18	8.26	363	10	2.75	376	6	1.60
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**218**	**18**	**8.26**	**363**	**10**	**2.75**	**376**	**6**	**1.60**
Total interest-bearing assets	**399,683**	**16,195**	**4.05**	**360,644**	**10,557**	**2.93**	**292,300**	**7,528**	**2.58**
Receivables for credit card operations	4,218			4,305			3,708		
Other non-interest bearing assets[6]	7,615			6,427			5,531		
Total assets	**411,516**			**371,376**			**301,539**		
Total interest-bearing assets attributed to overseas operations	**16,581**	**553**	**3.34**	**15,364**	**220**	**1.43**	**14,848**	**248**	**1.67**

See footnotes below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries(1) – continued

For the year ended December 31

Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

	2022			2021			2020		
	Average balance(2)	Interest expenses	Revenue rate	Average balance(2)	Interest expenses	Revenue rate	Average balance(2)	Interest expenses	Revenue rate
			in %			in %			in %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	47,479	211	0.44	45,249	104	0.23	32,679	13	0.04
Term deposits	169,384	3,861	2.28	146,126	1,605	1.10	133,409	1,267	0.95
Outside of Israel									
On-call	513	–	–	640	–	–	723	–	–
Term deposits	4,699	96	2.04	3,420	7	0.20	4,019	36	0.90
Total	**222,075**	**4,168**	**1.88**	**195,435**	**1,716**	**0.88**	**170,830**	**1,316**	**0.77**
Deposits from the Government									
In Israel	52	3	5.77	64	4	6.25	52	4	7.69
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**52**	**3**	**5.77**	**64**	**4**	**6.25**	**52**	**4**	**7.69**
Deposits from banks									
In Israel	7,727	9	0.12	5,687	4	0.07	1,728	7	0.41
Outside of Israel	345	–	–	34	–	–	2	–	–
Total	**8,072**	**9**	**0.11**	**5,721**	**4**	**0.07**	**1,730**	**7**	**0.40**
Securities loaned or sold in re-purchase agreements									
In Israel	–	–	–	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bonds and subordinated notes									
In Israel	34,009	1,744	5.13	34,238	1,142	3.34	31,062	380	1.22
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**34,009**	**1,744**	**5.13**	**34,238**	**1,142**	**3.34**	**31,062**	**380**	**1.22**
Other liabilities									
In Israel	3,005	31	1.03	695	6	0.86	485	1	0.21
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**3,005**	**31**	**1.03**	**695**	**6**	**0.86**	**485**	**1**	**0.21**
Total interest-bearing liabilities	**267,213**	**5,955**	**2.23**	**236,153**	**2,872**	**1.22**	**204,159**	**1,708**	**0.84**
Non-interest bearing deposits from the public	101,245			98,833			68,110		
Payables for credit card transactions	4,114			4,305			3,709		
Other non-interest bearing liabilities(8)	15,191			11,055			7,782		
Total liabilities	**387,763**			**350,346**			**283,760**		
Total equity instruments	**23,753**			**21,030**			**17,779**		
Total liabilities and equity instruments	**411,516**			**371,376**			**301,539**		
Interest spread			**1.82**			**1.71**			**1.74**
Net return on interest-bearing assets(9)									
In Israel	383,102	9,783	2.55	345,280	7,472	2.16	277,452	5,608	2.02
Outside of Israel	16,581	457	2.76	15,364	213	1.39	14,848	212	1.43
Total	**399,683**	**10,240**	**2.56**	**360,644**	**7,685**	**2.13**	**292,300**	**5,820**	**1.99**
Total interest-bearing liabilities attributed to overseas operations	**5,557**	**96**	**1.73**	**4,094**	**7**	**0.17**	**4,744**	**36**	**0.76**

See footnotes below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] – continued

For the year ended December 31

Reported amounts (NIS in millions)

C. Average balances and interest rates – Further information about interest-bearing assets and liabilities attributed to operations in Israel

	2022			2021			2020		
	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	(Revenue) rate
			in %			in %			in %
Israeli currency – non-linked									
Total interest-bearing assets	286,245	9,307	3.25	256,660	6,290	2.45	204,346	5,423	2.65
Total interest-bearing liabilities	175,330	(1,956)	(1.12)	156,406	(824)	(0.53)	140,760	(963)	(0.68)
Interest spread			**2.14**			**1.92**			**1.97**
Israeli currency – linked to the CPI									
Total interest-bearing assets	80,577	5,781	7.17	73,138	3,715	5.08	61,359	1,532	2.50
Total interest-bearing liabilities	54,779	(3,185)	(5.81)	50,294	(1,835)	(3.65)	39,480	(400)	(1.01)
Interest spread			**1.36**			**1.43**			**1.49**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	16,280	554	3.40	15,482	332	2.14	11,747	325	2.77
Total interest-bearing liabilities	31,547	(718)	(2.28)	25,359	(206)	(0.81)	19,175	(309)	(1.61)
Interest spread			**1.13**			**1.33**			**1.16**
Total – operations in Israel									
Total interest-bearing assets	383,102	15,642	4.08	345,280	10,337	2.99	277,452	7,280	2.62
Total interest-bearing liabilities	261,656	(5,859)	(2.24)	232,059	(2,865)	(1.23)	199,415	(1,672)	(0.84)
Interest spread			**1.84**			**1.76**			**1.78**

See footnotes below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries[(1)]

For the year ended December 31

Reported amounts (NIS in millions)

D. Analysis of changes in interest revenues and expenses

	2022 compared to 2021			2021 compared to 2020		
	Increase (decrease) due to change[(10)]			Increase (decrease) due to change[(10)]		
	Volume	Price	Net change	Volume	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	1,880	2,537	4,417	1,412	1,527	2,939
Outside of Israel	86	49	135	13	(9)	4
Total	**1,966**	**2,586**	**4,552**	**1,425**	**1,518**	**2,943**
Other interest-bearing assets						
In Israel	10	878	888	96	22	118
Outside of Israel	(1)	199	198	1	(33)	(32)
Total	**9**	**1,077**	**1,086**	**97**	**(11)**	**86**
Total interest revenues	**1,975**	**3,663**	**5,638**	**1,522**	**1,507**	**3,029**
Interest-bearing liabilities						
Deposits from the public						
In Israel	479	1,884	2,363	226	203	429
Outside of Israel	21	68	89	(1)	(28)	(29)
Total	**500**	**1,952**	**2,452**	**225**	**175**	**400**
Other interest-bearing liabilities						
In Israel	164	467	631	209	555	764
Outside of Israel	–	–	–	–	–	–
Total	**164**	**467**	**631**	**209**	**555**	**764**
Total interest expenses	**664**	**2,419**	**3,083**	**434**	**730**	**1,164**

(1) Information in these tables is after effect of hedging derivative instruments.

(2) Based on balance at start of month (in Israeli currency – non-linked segment: based on daily balances).

(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.

(4) From the average balance of bonds available for sale, for the one-year periods ended December 31, 2022, 2021 and 2020, we (deducted) added the average balance of unrealized (losses) gains from adjustment to fair value of bonds available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (409) million, NIS (27) million and NIS 20 million, respectively.

(5) From the average balance of bonds held for trading, for the twelve-month periods ended December 31, 2022, 2021 and 2020, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of bonds held for trading, amounting to NIS 16 million, NIS (3) million and NIS 9 million, respectively.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 571, 711 and 452 million were included in interest revenues for the one year periods ended December 31, 2022, 2021 and -2020, respectively.

(8) Includes derivative instruments.

(9) Net return – net interest revenues divided by total interest-bearing assets.

(10) The change attributed to change in volume was calculated by multiplying the new price and the change in volume. The change attributed to change in price was calculated by multiplying the old volume and the change in price.

Appendix 2 – Multi-period information

Consolidated statement of profit and loss – multi-period information

For the years ended December 31, 2018-2022

Reported amounts (NIS in millions)

	2022[(1)]	2021[(1)]	2020[(1)]	2019	2018
Interest revenues	16,195	10,557	7,528	7,711	7,359
Interest expenses	5,955	2,872	1,708	2,371	2,437
Interest revenues, net	10,240	7,685	5,820	5,340	4,922
Expenses with respect to credit losses	532	(278)	1,050	364	310
Interest revenues, net after expenses with respect to credit losses	**9,708**	**7,963**	**4,770**	**4,976**	**4,612**
Non-interest revenues					
Non-interest financing revenues	754	401	221	357	445
Commissions	2,052	1,947	1,671	1,535	1,475
Other revenues	622	287	221	74	47
Total non-interest revenues	**3,428**	**2,635**	**2,113**	**1,966**	**1,967**
Operating and other expenses					
Payroll and associated expenses	4,029	3,536	2,644	2,562	2,407
Maintenance and depreciation of buildings and equipment	1,012	1,002	871	770	747
Other expenses	1,132	1,030	764	656	1,230
Total operating and other expenses	**6,173**	**5,568**	**4,279**	**3,988**	**4,384**
Pre-tax profit	6,963	5,030	2,604	2,954	2,195
Provision for taxes on profit	2,356	1,730	903	1,029	922
After-tax profit	**4,607**	**3,300**	**1,701**	**1,925**	**1,273**
Share in profit (loss) of associate companies, after tax	5	(10)	1	–	1
Net profit:					
Before attribution to non-controlling interests	4,612	3,290	1,702	1,925	1,274
Attributable to non-controlling interests	(140)	(102)	(92)	(83)	(68)
Attributable to shareholders of the Bank	**4,472**	**3,188**	**1,610**	**1,842**	**1,206**
Earnings per share[(2)] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	**17.47**	**12.47**	**6.70**	**7.86**	**5.17**
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	**17.38**	**12.35**	**6.69**	**7.83**	**5.15**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2021 includes the financial results of Union Bank.

(2) Share of NIS 0.1 par value.

Appendix 2 – Multi-period information – continued

Consolidated Balance Sheet – Multi-period information

As of December 31, 2018 – 2022

Reported amounts (NIS in millions)

	2022	2021	2020	2019	2018
Assets					
Cash and deposits with banks	93,673	95,267	86,570	51,672	45,162
Securities	15,144	15,033	17,290	10,113	11,081
Securities borrowed or purchased in resale agreements	315	1,332	200	120	26
Loans to the public	310,356	273,531	247,958	206,401	195,956
Provision for credit losses	(2,884)	(2,103)	(2,433)	(1,693)	(1,575)
Loans to the public, net	307,472	271,428	245,525	204,708	194,381
Loans to Governments	318	477	613	656	630
Investments in associated companies	127	69	31	32	32
Buildings and equipment	1,503	1,734	1,743	1,457	1,424
Intangible assets and goodwill	178	208	239	87	87
Assets with respect to derivatives	5,789	3,652	4,543	2,578	3,240
Other assets	3,773	3,071	3,386	1,821	1,810
Total assets	**428,292**	**392,271**	**360,140**	**273,244**	**257,873**
Liabilities and Equity					
Deposits from the public	344,514	307,924	284,224	210,984	199,492
Deposits from banks	6,994	6,992	3,779	714	625
Deposits from the Government	47	81	70	29	42
Bonds and subordinated notes	33,287	38,046	33,446	33,460	30,616
Liabilities with respect to derivatives	5,214	3,753	5,506	2,686	3,661
Other liabilities	13,368	13,746	13,446	8,566	8,047
Total liabilities	**403,424**	**370,542**	**340,471**	**256,439**	**242,483**
Shareholders' equity attributable to shareholders of the Bank	23,780	20,770	18,804	16,033	14,681
Non-controlling interests	1,088	959	865	772	709
Total equity	**24,868**	**21,729**	**19,669**	**16,805**	**15,390**
Total liabilities and equity	**428,292**	**392,271**	**360,140**	**273,244**	**257,873**

Appendix 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2022

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues	4,877	4,213	3,961	3,144
Interest expenses	1,925	1,522	1,508	1,000
Interest revenues, net	2,952	2,691	2,453	2,144
Expenses with respect to credit losses	191	155	107	79
Interest revenues, net after expenses with respect to credit losses	**2,761**	**2,536**	**2,346**	**2,065**
Non-interest revenues				
Non-interest financing revenues	198	263	176	117
Commissions	505	519	508	520
Other revenues	64	60	66	432
Total non-interest revenues	**767**	**842**	**750**	**1,069**
Operating and other expenses				
Payroll and associated expenses	1,194	1,002	924	909
Maintenance and depreciation of buildings and equipment	281	240	254	237
Other expenses	339	287	264	242
Total operating and other expenses	**1,814**	**1,529**	**1,442**	**1,388**
Pre-tax profit	1,714	1,849	1,654	1,746
Provision for taxes on profit	580	635	572	569
After-tax profit	**1,134**	**1,214**	**1,082**	**1,177**
Share in net profits of associated companies, after tax	1	2	1	1
Net profit:				
Before attribution to non-controlling interests	1,135	1,216	1,083	1,178
Attributable to non-controlling interests	(48)	(38)	(30)	(24)
Attributable to shareholders of the Bank	**1,087**	**1,178**	**1,053**	**1,154**
Earnings per share[1] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**4.23**	**4.59**	**4.11**	**4.50**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**4.21**	**4.56**	**4.09**	**4.43**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – continued

Consolidated Statement of Profit and Loss by Quarter – for 2021

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues	2,464	2,800	3,085	2,208
Interest expenses	506	799	1,050	517
Interest revenues, net	1,958	2,001	2,035	1,691
Expenses with respect to credit losses	(15)	(36)	(240)	13
Interest revenues, net after expenses with respect to credit losses	**1,973**	**2,037**	**2,275**	**1,678**
Non-interest revenues				
Non-interest financing revenues	83	63	66	189
Commissions	528	473	469	477
Other revenues	68	78	75	66
Total non-interest revenues	**679**	**614**	**610**	**732**
Operating and other expenses				
Payroll and associated expenses	960	863	843	870
Maintenance and depreciation of buildings and equipment	267	250	245	240
Other expenses	328	226	245	231
Total operating and other expenses	**1,555**	**1,339**	**1,333**	**1,341**
Pre-tax profit	1,097	1,312	1,552	1,069
Provision for taxes on profit	390	442	540	358
After-tax profit	**707**	**870**	**1,012**	**711**
Share in net profit (loss) of associated companies, after tax	–	1	1	(12)
Net profit:				
Before attribution to non-controlling interests	707	871	1,013	699
Attributable to non-controlling interests	(28)	(26)	(25)	(23)
Attributable to shareholders of the Bank	**679**	**845**	**988**	**676**
Earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**4.23**	**3.30**	**3.87**	**2.65**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**4.21**	**3.24**	**3.85**	**2.64**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – continued

Consolidated balance sheet as of the end of each quarter in 2022

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Assets				
Cash and deposits with banks	93,673	95,596	81,330	84,666
Securities	15,144	14,379	22,384	16,967
Securities borrowed or purchased in resale agreements	315	914	2,124	542
Loans to the public	310,356	306,908	300,871	285,457
Provision for credit losses	(2,884)	(2,804)	(2,638)	(2,540)
Loans to the public, net	307,472	304,104	298,233	282,917
Loans to the Government	318	339	464	457
Investments in associated companies	127	106	109	109
Buildings and equipment	1,503	1,410	1,421	1,400
Intangible assets and goodwill	178	185	193	201
Assets with respect to derivatives	5,789	8,695	7,080	3,353
Other assets	3,773	4,039	3,631	3,433
Total assets	**428,292**	**429,767**	**416,969**	**394,045**
Liabilities and Equity				
Deposits from the public	344,514	345,339	327,884	312,653
Deposits from banks	6,994	7,725	8,515	6,850
Deposits from the Government	47	48	57	66
Bonds and subordinated notes	33,287	31,352	35,173	36,045
Liabilities with respect to derivatives	5,214	7,549	6,264	2,940
Other liabilities	13,368	13,708	15,893	13,307
Total liabilities	**403,424**	**405,721**	**393,786**	**371,861**
Equity attributable to equity holders of the Bank	23,780	22,989	22,166	21,199
Non-controlling interests	1,088	1,057	1,017	985
Total equity	**24,868**	**24,046**	**23,183**	**22,184**
Total liabilities and equity	**428,292**	**429,767**	**416,969**	**394,045**

Appendix 3 – Multi-quarter information – continued

Consolidated balance sheet as of the end of each quarter in 2021

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Assets				
Cash and deposits with banks	95,267	96,365	94,337	91,392
Securities	15,033	14,749	17,539	19,529
Securities borrowed or purchased in resale agreements	1,332	383	187	139
Loans to the public	273,531	261,905	256,441	251,957
Provision for credit losses	(2,103)	(2,163)	(2,205)	(2,418)
Loans to the public, net	271,428	259,742	254,236	249,539
Loans to the Government	477	479	578	582
Investments in associated companies	69	28	19	18
Buildings and equipment	1,734	1,667	1,678	1,702
Intangible assets and goodwill	208	216	223	231
Assets with respect to derivatives	3,652	2,769	2,426	3,643
Other assets	3,071	3,165	3,147	3,635
Total assets	**392,271**	**379,563**	**374,370**	**370,410**
Liabilities and Equity				
Deposits from the public	307,924	303,921	294,391	293,766
Deposits from banks	6,992	6,801	5,945	4,293
Deposits from the Government	81	102	43	44
Bonds and subordinated notes	38,046	32,664	35,594	33,335
Liabilities with respect to derivatives	3,753	2,626	2,412	3,172
Other liabilities	13,746	11,688	14,622	15,489
Total liabilities	**370,542**	**357,802**	**353,007**	**350,099**
Equity attributable to equity holders of the Bank	20,770	20,831	20,444	19,422
Non-controlling interests	959	930	919	889
Total equity	**21,729**	**21,761**	**21,363**	**20,311**
Total liabilities and equity	**392,271**	**379,563**	**374,370**	**370,410**

Appendix 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2022)
- The balance of investment in associated companies would have been lower by NIS 3.5 billion.
- The balance of deposits from the public would have been lower by NIS 30.7 billion.
- The balance of bonds and subordinated obligatory notes would have been higher by NIS 30.3 billion.

Profit and loss highlights (for 2022)
- Total non-interest revenues would have been higher by NIS 516 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 303 million.

Balance sheet highlights (as of December 31, 2021)
- The balance of investment in associated companies would have been lower by NIS 5.1 billion.
- The balance of deposits from the public would have been lower by NIS 7.7 billion.
- The balance of bonds and subordinated obligatory notes would have been higher by NIS 32.3 billion.
-

Profit and loss highlights (for 2021)
- Total non-interest revenues would have been higher by NIS 562 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 234 million.

Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and index for these terms

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

ABC	**ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. The process includes, *inter alia*, setting capital targets, capital planning processes and review of the status of capital under diverse stress scenarios. This process is part of Pillar 2 of the Basel II directive.
	VAR – A model used to estimate total exposure to diverse market risks. The VAR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.
	SOFR (Secured Overnight Financing Rate) – Interest rate used by banks for pricing of derivatives and loans linked to USD. This interest rate is based on transactions where investors offer to banks loans secured by their bond assets. The Federal Reserve started publishing this rate in April 2018, as part of the effort to replace LIBOR rates.
B	**Basel – Basel II / Basel III** – A framework for assessment of capital adequacy and risk management, published by the Basel Committee on Bank Supervision.
C	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
E	**Standard approach** – An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. The capital allocation is calculated by a formula based on supervisory assessment components, as specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I equity and additional Tier I capital. Tier II equity: As defined in Proper Conduct of Banking Business Directive 202 "Capital measurement and adequacy – Supervisory capital".
J	**Minimum capital ratio** – The ratio represents the minimum supervisory capital ratios which the Bank is required to maintain, pursuant to requirements set forth in Proper Conduct of Banking Business Directive 201.
K	**Subordinated obligatory notes** – Obligatory notes whose rights are subordinated to claims by other Bank creditors, except for other obligatory notes of the same type.
M	**Stress tests** – Term covering multiple methods designed to assess the financial standing of a banking corporation under a stress scenario.
	Risks document – A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The risks document is reported and presented to the Board of Directors quarterly.
N	**Pillar 2** – The second pillar of the Basel II document, referring to the supervisory review process. This part consists of the following underlying principles: The Bank shall conduct an ICAAP process, as defined above. The banking supervision shall conduct a process to assess the bank's capital adequacy assessment process, to review the bank's capacity to monitor and comply with supervisory capital ratios. The bank is expected to operate above the minimum capital ratios specified.
	Pillar 3 – The third pillar of the Basel II document, designed to promote market discipline by developing a set of disclosure requirements that would allow market participants to assess the capital, risk exposure and risk assessment processes, and accordingly – to assess the bank's capital adequacy.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**CVA – Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss from revaluation to market value due to expected counter-party risk for over-the-counter (OTC) derivatives. This means loss due to impairment of fair value of derivatives, due to increase in counter-party credit risk (such as: lowered rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
SH	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.

Terms with regard to banking and finance

ABC	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
A	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
	Bonds – Securities which are issuer obligations to pay to bond holders the issued principal and interest upon set dates or upon fulfillment of certain conditions.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Debt secured by collateral – Impaired debt expected to be repaid by realizing collateral provided to secure such debt.
	Debt under re-structuring – Problematic debt under re-structuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms of the debt, designed to ease the burden on the debtor of cash payments in the near term (reduction or deferral of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses that require special attention from Bank management. If such weaknesses are not addressed, the likelihood of debt repayment may deteriorate.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired debt when payment of principal or interest with respect to such debt is in arrears 90 days or loner, unless the debt is well secured and is in a collection process. Furthermore, any debt whose terms and conditions have been modified in re-structuring of problematic debt shall be classified as impaired debt, unless prior to and following such re-structuring, a provision for credit losses by extent of arrears has been made for such debt, in conformity with appendix to Proper Conduct of Banking Business Directive 314 regarding problematic debt in residential mortgages.
	Problematic debt – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
J	**Recorded debt balance** – The debt balance, including recognized accrued interest, un-amortized premium or discount, net deferred commissions or net deferred costs charged to the debt balance and not yet amortized, net of any debt amount subject to accounting write-off.
M	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
	Average duration – Average duration of bonds. Measured in years, by weighting principal and interest payments for the bond over time, through final maturity. The average duration of bonds reflects sensitivity of the financial instrument to changes in interest rates. Average duration is calculated as the ratio of weighted average payments to price of the bond.
N	**Derivatives** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
S	**Syndication** – Loan extended jointly by a group of lenders.
SH	**Active market** – Market where transactions in an asset or liability are conducted with sufficient frequency and volume to provide regular information about pricing of assets and liabilities.

Terms with regard to regulatory directives

ABC	**EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
	FATCA – Foreign Accounts Tax Compliance Act – The US Foreign Accounts Tax Compliance Act (FATCA) stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
	LCR – Liquidity Coverage Ratio – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a measure of the Bank's capacity to meet its liquidity needs for the coming month.

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The Netherlands

Bank Mizrahi Tefahot

Periodic report

2022

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To:
Israel Securities Authority
22 Kanfey Nesharim Street
Jerusalem 95464

Dear Sir/Madam,

Re: 2022 Periodic Report

Pursuant to the Securities Regulations (Periodic and immediate reports), 1970, we hereby present the Bank's 2022 periodic report.

Corporate information

Name of Corporation:	Bank Mizrahi Tefahot Ltd.
Company ID with Registrar:	520000522
Corporation's address of record:	7 Jabotinsky Street, Ramat Gan
Corporation's telephone:	03-7559219 fax: 03-7559923
Balance Sheet Date:	December 31, 2022,
Report date:	March 13, 2023,
Reported period:	2022

Regulation 9 – Financial statements

This periodic report includes the Report of the Board of Directors and Management, Description of Bank Group Business and the opinion of the Bank's Independent Auditor dated March 13, 2023.

Regulation 10c – Use of proceeds from securities pursuant to prospectus

No securities were issued pursuant to a prospectus in the reported period.

Regulation 11 – List of investments in subsidiaries and key affiliates as of December 31, 2022

	Share ID on the Stock Exchange	Shares held by the Bank		
		Share class	Number of shares	Total par value in NIS
Bank Yahav for Government Employees Ltd.	Non-negotiable	Ordinary NIS 0.01	243,899	2,439
		Base NIS 0.01 par value	1	(1)-
		Ordinary NIS 0.01 par value	1	(1)-
Tefahot Insurance Agency (1989) Ltd.	Non-negotiable	Ordinary NIS 1	201	201
Netzivim Assets and Equipment Ltd.	Non-negotiable	Ordinary NIS 0.0001	1,508,696,157	150,870
Union Leasing Ltd.	Non-negotiable	Ordinary NIS 1	1,000	1,000

(1) Less than NIS 1.

						Capital investments and other investments
Cost of share purchase	Adjusted carrying amount	Loan balance	(Obligatory notes / bonds)			Holding stake
NIS in thousands		NIS in millions		Of capital	Of voting rights (in %)	of right to appoint Board members
419,184	1,083	–	–	50.0	50.0	50.0
1	1,277	–	–	100.0	100.0	100.0
333,171	1,136	–	–	100.0	100.0	100.0
701	864	2,329	–	100.0	100.0	100.0

Regulation 13 – Revenues of subsidiaries and key affiliates and Bank revenues there from(1)

NIS in millions

	For the year ended December 31, 2022				
Company name	**Net profit (2)**	**Pre-tax profit(2)**	**Interest**	**Management fee**	**Dividends**
Union Bank Le-Israel Ltd.	120	102	–	–	–
Bank Yahav for Government Employees Ltd.	203	309	–	–	15
Tefahot Insurance Agency (1989) Ltd.	70	106	–	–	–
Netzivim Assets and Equipment Ltd.	33	24	–	–	–
Union Leasing Ltd.	54	70	36	–	–

(1) Only results of subsidiaries and affiliates with significant information are presented.
(2) As reported by the companies.

Regulation 14 – List of loan balance groups as of the balance sheet date

See Note 30.C to the financial statements.

Regulation 20 - Trading on stock exchange – securities listed for trading – dates and reasons for trading halts

During the reported period, 68,432 ordinary shares of NIS 0.1 par value each were listed for trading due to options exercise by Bank managers pursuant to an option plan. For more information see Note 23 to the financial statements.

During the reported period, there were no trading halts on the stock exchange.

Regulation 21 – Remuneration of interested parties and senior officers

For more information about remuneration of interested parties and senior officers in 2022, see "Details of senior officer remuneration" in chapter "Corporate Governance" of the financial statements, as well as chapter "Remuneration" on the Risks Report available on the Bank website.

Payments to members of the Bank Board of Directors, including VAT (except for payments to the Chairman of the Board of Directors) in 2022 amounted to NIS 7 million. Total pay and associated expenses for the Chairman of the Board of Directors and for the Bank President & CEO amounted to NIS 8 million (for more information see Notes 22.A, 23.B and 34.C to the financial statements, as well as the section "Details of senior officer remuneration" in chapter "Corporate governance" of the financial statements).

Regulation 21a – Names of controlling shareholders of the corporation

For details of the names of controlling shareholders of the corporation, see "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 22 – Transactions with controlling shareholder

For more information about transactions with controlling shareholders in 2022, see "Transactions with controlling shareholders and related parties" in chapter "Corporate governance" of the financial statements.

Regulation 24 – Shares and securities held by interested parties in the corporation As of March 6, 2023

Ordinary shares NIS 0.1 par value and other securities of the Bank held by interested parties (security ID on the stock exchange – 0695437):

Name of interested party(6)	Company ID with Registrar	Number of Shares	Holding stake in %	Number of options	Holding stake, fully diluted
L.A.B.M. (Holdings) Ltd.(1)	51-2008442	33,439,930	13.00	–	9.30
L.I.N. (Holdings) Ltd. (1)	51-1349896	21,046,277	8.18	–	5.86
F & W (Registered Partnership)(2)	54-0183118	33,662,844	13.09	–	9.37
M.W.Z. Holdings Ltd.(2)	51-2024225	18,780,468	7.30	–	5.22
Excellence HaPhoenix Group(4)	520041989 and 520017450	14,268,484	5.55	–	3.97
Harel Group(4)	520033986	13,310,710	5.18	–	3.70
Meitav Dash Group(4)	520043795	15,101,493	5.87	–	4.20
Moshe Lari	–	–	–	97,137	0.03
Ayala Hakim	–	–	–	141,343	0.04
Ofir Morad	–	–	–	145,266	0.04
Nissan Levy	–	–	–	139,269	0.04
Galit Weizer	–	–	–	105,069	0.03
Doron Klauzner	–	–	–	104,825	0.03
Menahem Aviv	–	–	–	104,459	0.03
Rachel Friedman	–	–	–	105,069	0.03
Adi Shachaf	–	–	–	107,253	0.03
Ofer Horvitz	–	–	–	71,301	0.02
Yaskil Teri Esther	–	–	–	45,180	0.01
Shevy Shemer	–	–	–	33,885	0.01
Public	–	107,579,389	41.83	(3)6,491,357	58.04
Total		**257,189,595**	**100.00**		**100.00**

(1) Ofer Group company.

(2) Wertheim Group company.

(3) Includes option plan approved for Bank employees, other than interested parties, pursuant to Regulation 24 of the Securities Regulations (Periodic and Immediate Reports), 1970.

(4) As of December 31, 2022; Changes subsequent to this date are reflected under "Public".

(5) For more information about holdings of interested parties and agreements between controlling shareholders, see section "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 24a –Registered capital, issued capital and convertible securities[(1)]

Pursuant to Section 24a of the Securities Regulations, below is information about registered capital, issued capital and convertible securities (in NIS):

	Registered		Issued and paid-in	
	December 31		December 31	
	2022	2021	2022	2021
Ordinary shares, NIS 0.1 par value[(2)]	400,000,000	400,000,000	257,175,661	256,486,472

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

During the reported period, the issued and paid-in share capital increased by NIS 68,919 due to options exercised for shares by Bank managers.
All shares confer identical voting rights.

Regulation 24b – Shareholder registry as of March 6, 2023

	Number of Shares	Holding stake
Wertheim Group		
M.W.Z. Holdings Ltd.[(2)]	53	–
F & W (Registered Partnership)[(2)]	29,275,441	11.41
Total – Wertheim Group	**29,275,494**	**11.41**
Ofer Group		
L.A.B.M. (Holdings) Ltd.	29,512,972	11.51
Total – Ofer Group	**29,512,972**	**11.51**
Mizrahi Tefahot Registration Company Ltd.	**198,401,126**	**77.08**
Fishman Mordechai	**3**	**–**
Grand total	**257,189,595**	**100.00**

	Number of options
Registry of option holders	
Options to employee Mizrahi Tefahot AP 2019	277,484
Options to employee Mizrahi Tefahot AP Outline 2020	600,485
Options to employee Mizrahi Tefahot AP 2021	3,330,018
Options to employee Mizrahi Tefahot AP 2022	3,417,040
Total	**7,625,027**

Registry of holders of subordinated capital notes

	Number of capital notes
Registry of holders of subordinated capital notes – Series A (Holder: Registration Company)	**600,000,000**

Regulation 26 – Board members of the Bank

Below is information about Board members of the Bank as of the report issue date:

Moshe Vidman, Chairman[(1)(2)]

ID	690875
Year of birth	1943
Formal Address	9 Katzenelson Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	Credit Committee – Chairman; IT and Technology Innovation Committee, Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	August 2, 2010
Education	Undergraduate degree – Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Board member and Chairman of the Board of Directors of Bank Mizrahi Tefahot Ltd. Serves in volunteer capacity as: Member, Executive Board of the Jerusalem Foundation; Member, Board of Trustees of the Hebrew University in Jerusalem.
Previous occupation (in past 5 years, other than current occupation)	Executive Board of Magnes Book Publishers.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(3)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) Serves as Chairman of the Board of Directors as from December 1, 2012.
(3) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Eli Alroy

ID	050606318
Year of birth	1951
Formal Address	24 Amirim, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee; Ad-hoc Union Bank Integration Committee, Credit Committee.
Start date in office as member of the Bank's Board of Directors	June 25, 2019
Education	B.Sc. In Sciences, specialized in civil engineering, Technion Israeli Technology Institute, 1974. M.Sc. in Sciences, Stanford University, California, USA, 1982.
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Member of O.G. Advisory committee; Board member of L.I.N (Holdings) Ltd., CEO and Board member of A.I.R.A.D Investments Ltd., Board member of L.I.N Innovation Ltd., Board member of L.A.B.M (Holdings) Ltd., Board member of L.I.N (Investments) HoldCo Ltd., Board member of L.I.N Investments 2021 Ltd., Board member of L.I.N–L.A.B.M Holdings Ltd. and Board member of Emkiri Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of the following: Ofer Investments Ltd., Ofer Bros. Holdings (1989) Ltd., Abir Haber Ltd., A.F.A Real Estate Investments Ltd. (in dissolution), Quick Check Ltd., OG Tech Partners Ltd. and Globalworth Real Estate Investment Limited.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Ron Gazit[1]

ID	050688605
Year of birth	1951
Formal Address	8 Herzel Rosenblum Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee, Credit Committee
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Consultant to Tanzanite Capital Ltd.
Previous occupation (in past 5 years, other than current occupation)	
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Estheri Giloz-Ran

ID	025682154
Year of birth	1974
Formal Address	1 Yefe Nof, Givatayim
Citizenship	Israeli
Membership of Board of Directors' committees	Audit, Remuneration, IT and Technology Innovation Committees.
Start date in office as member of the Bank's Board of Directors	February 27, 2021
Education	BA in Humanities – Management (Open University); CPA (Management College); MBA in Business Administration (Ben Gurion University); PhD in Accounting and Taxes (Ben Gurion University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., advisor providing legal opinions, Board member of the following: external Board member of Orda Print Industries Ltd., M. external Board member of Yohananof and Sons (1988) Ltd., external Board member of Netanel Group Ltd., external Board member of Aran Research and development (1982) Ltd., Board member of Aminach Furniture and Mattress Industries Ltd., independent Board member of Imagesat International (ISI) Ltd., external Board member of Overseas Commerce Ltd., lecturer at Bar Ilan University.
Previous occupation (in past 5 years, other than current occupation)	Member, Testing Board of the Institute of Certified Public Accountants in Israel. Served as Board members of the following: ExposeBox Ltd. and independent Board member of Blue Square Real Estate Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Avraham Zeldman[1]

ID	57959190
Year of birth	1948
Formal Address	6 Shivtey Israel Street, Ra'anana
Citizenship	Israeli
Membership of Board of Directors' committees	Ad-hoc Union Bank Integration Committee – Chair, Audit Committee, Risks Management Committee
Start date in office as member of the Bank's Board of Directors	February 26, 2015
Education	Studied statistics and economics, no degree award (Haifa University), certificate studies in business administration (Haifa University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Chairman of the Board of Directors of Fox Wiezel Ltd., Board member and CEO of A. Zeldman Management Ltd., Consultant to Polyeurethane Ltd.; Executive Board member, MATI Raanana; Executive Board member, Dualis Fund for Social Investments.
Previous occupation (in past 5 years, other than current occupation)	Board member of Liliot Group Ltd. and Liliot Baker Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Hannah Feuer[1]

ID	053549523
Year of birth	1955
Formal Address	13 HaChermesh Street, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	Remuneration – Chair, Audit, Credit
Start date in office as member of the Bank's Board of Directors	August 30, 2018
Education	Undergraduate degree in Sociology (Tel Aviv University) and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN)) required for CPA qualification tests in the State of California.
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of: Poalim Real Estate Fund (Israel) Ltd., Poalim Real Estate Fund Ltd.; External Board member of the following: Discount Capital Ltd., OWC – Pharmaceutical Research Corp.
External Board member as defined in Proper Conduc of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as havin accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Joseph Fellus

ID	051641025
Year of birth	1953
Formal Address	11 Yehuda HaLevi, Raanana
Citizenship	Israeli
Membership of Board of Directors' committees	Audit – Chair, Credit; Risks Management; Remuneration; Ad-hoc Union Bank Integration Committee.
Start date in office as member of the Bank's Board of Directors	August 20, 2019
Education	BA in Economics and Accounting (Tel Aviv University), CPA (Tel Aviv University), Practical Engineer in Electronics (Technicum Yad Singalovski).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Board member of: Kaitz BeYafo Ltd., Massa Kaitz Ltd., Hayde Yafo Ltd., Meitav HaTene Holdings (1977) Ltd., Meitav HaTene Land Holdings Ltd., K Tesoro Ltd., Skuba YB Ltd. Chairman of the Board of Directors and CEO of Joseph Fellus Accountants Ltd.
Previous occupation (in past 5 years, other than current occupation)	Partner, CPA firm.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Jonathan Kaplan[1]

ID	055251391
Year of birth	1958
Formal Address	2 Haim Zakay Street, Petach Tikva
Citizenship	Israeli
Membership of Board of Directors' committees	Credit, Risk Management, Ad-hoc Union Bank integration Committee, IT and Technology Innovation Committee
Start date in office as member of the Bank's Board of Directors	May 12, 2011
Education	Undergraduate degree in Economics and Accounting (Tel Aviv University); CPA; graduate degree in Political Science and National Security (Haifa University; National Security College, Tel Aviv).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Advisor to various entities on management and economic issues. Board member of: Central Soft Drinks Company Ltd., International Beer Breweries Ltd., Vilar International Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of Novolog Pharm-Up Marketing (1966) Ltd.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Ilan Kremer

ID	059841742
Year of birth	1967
Formal Address	7 HaDror, Mevaseret Zion
Citizenship	Israeli
Membership of Board of Directors' committees	Risk Management
Start date in office as member of the Bank's Board of Directors	March 27, 2019
Education	Undergraduate degree in Physics and Computer Science (Hebrew University in Jerusalem), graduate degree in Computer Science (Hebrew University in Jerusalem), PhD in Financing (Northwestern University, Evanston Illinois).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Professor of Economics and Financing at Hebrew University, Professor of Economics at Warwick University, UK.
Previous occupation (in past 5 years, other than current occupation)	External advisor to Research Department of the Bank of Israel (through March 2019). Consultant to Wiz (through January 2019).
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Gilad Rabinobich

ID	057153603
Year of birth	1961
Formal Address	7 Mitzpeh Street, Shoham
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee – Chair; Audit, Risk Management, Remuneration, Ad-hoc Union Bank Integration Committee
Start date in office as member of the Bank's Board of Directors	March 12, 2019
Education	Undergraduate degree in Economics (Bar Ilan University), Graduate degree in Israeli Studies (Haifa University), Programming course (IDF) and system analysis course (IDF).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Owner and CEO of strategic technology consulting company A.T. Strategy Pillars Ltd., guest lecturer in business administration, technology and entrepreneurship, Ono Academic campus, owner and CEO of Gilad Rabinobich Ltd., Chairman (volunteer) of Executive Board of Be'eri Pre-Military School.
Previous occupation (in past 5 years, other than current occupation)	CEO of SQLink, Deputy Head of Council, Shoham and holder of Education Portfolio on Shoham Council (volunteer), Board member (volunteer) of Bet Arlozorov Ltd., CEO (and owner) of A.T. Strategy Ltd., CEO of R.G.I.H.G Ltd. ., Board member (volunteer) of Tzofen – High Tech Centers Ltd
Has experience, expertise and qualifications in information and cyber security.	Has experience, expertise and qualifications in information and cyber security due, *inter alia*, to holding office as follows: CEO of SQLink Ltd. (2019–2021), CEO of Malam Systems Ltd. - a public company (1996–2000 and from December 2001 to June 2006), CEO of EDS Middle East (2007–2010), CEO of Netvision Ltd. (2000–2001) and CEO of Elad Software Systems Ltd. (1991–1996). Furthermore, consulting and creating technology and information security tenders for the Economics Corporation (2011–2019), strategic technology consulting on information security etc. to companies including Tnuva, Lumenis, TSG (2011 to date). Graduate of MAMRAM training, IDF with multiple training courses (1984–1989).
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Has proven knowledge and experience in IT[1]	Yes
Expert Board member[(2)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Below is additional information about Board members with accounting and financial qualifications

Moshe Vidman

Undergraduate degree in Economics and Political Science and graduate degree in Business Administration (Financing).

Mr. Vidman has served as Board member of the Bank since August 2010 and serves as Chairman of the Bank Board of Directors as from December 2012. Mr. Vidman has also served as member of the Bank Board of Directors' Audit Committee prior to his appointment as Chairman of the Board of Directors. Currently Mr. Vidman is member of the Credit, Risk Management, Union Bank integration Committee, IT and Technology Innovation Committee.

Previously, Mr. Vidman has served, *inter alia*, as Member of the Board of Directors of Bank Leumi Le-Israel Ltd. (2004-2010) and as member of the Audit Committee of Bank Leumi Le-Israel Ltd. (For 3 years); as Board member and member of the Audit Committe and Finance Committee of the Israel Corporation Ltd.; as Board member and Chairman of the Audit Committee of Partner Communications Ltd.; and as Board member of other public companies with significant business volumes, including ICL Ltd. and Melisron Ltd.

Estheri Giloz-Ran

BA in Social Sciences – Management, CPA, MBA in Business Administration and PhD in Accounting and Taxes.

Ms. Giloz-Ran serves as external Board member of the Bank as from February 2021. She currently serves as member of the Audit Committee, Remuneration Committee, IT Committee and Technology Innovation Committee.

Ms. Giloz-Ran serves as lecturer at Bar Ilan University (since 2017) and has served as Head of the Accounting Department and as lecturer in the Business Administration Department at Peres Academic Center (2011-2017); Ms. Giloz-Ran has also served as member of the Professional Council of the Institute of Certified Public Accountants in Israel (2018-2020) and has served as member of the Testing Committee of the Institute of Certified Public Accountants in Israel (2018-2020).

Ms. Giloz-Ran also serves, *inter alia*, as external Board member and member of the Audit Committee of public companies with significant business volume (for some also serves as Chair of the Audit Committee) and provides opinions for use in Court (significant volume) on business and accounting matters and on matters related to financial statements (since 2015).

Avraham Zeldman

Studied Statistics and Economics, certificate studies in Business Administration (not eligible for degree).

Mr. Zeldman has served as Board member of the Bank since February 2015. In December 2020, Mr. Zeldman was appointed Chairman of Union Bank Integration Committee.

Currently, Mr. Zeldman is member of the Audit Committee, Union Bank Integration Committee (this Committee was eliminated in the first quarter of 2023, after completion of the merger) and Risk Management Committee.

Mr. Zeldman has held senior positions at Bank Leumi Group, as follows: Executive with Bank Leumi (1987-1999), CEO of Leumi Partners Ltd. (1999-2010) and Chairman of the Board of Directors of Bank Leumi LeMashkantaot Ltd. (1987-2010).

Mr. Zeldman has also been serving as Board member of other public companies.

Hannah Fayer

Undergraduate degree in Sociology and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN)) (two years of studies).

Ms. Feuer serves as external Board member of the Bank as from August 2018. In January 2020, Ms. Feuer was appointed Chair of the Remuneration Committee. Currently, Ms. Feuer is member of the Audit Committee, Remuneration Committee and Credit Committee.

Ms. Feuer has served as CFO and executive of Poalim Capital Markets Ltd. (2003-2017) and as CFO of Shrem Podim Kelner Group (1993-2002).

Ms. Feuer has professional experience in audit management with accounting firms (1985-1988 and 1989-1993).

Joseph Fellus

Undergraduate degree in Accounting, licensed CPA, undergraduate degree in Economics.

Mr. Fellus serves the Bank as external Board member since August 2019. In January 2020, Mr. Fellus was appointed Chairman of the Audit Committee.

Currently, Mr. Fellus is member of the Audit Committee, Remuneration Committee, Risk Management Committee, Credit Committee and Union Bank Integration Committee (this Committee was eliminated in the first quarter of 2023, after completion of the merger).

Mr. Fellus has served (through March 31, 2019) as Parner of an accounting firm and has served (2014-2019) as Partner in Charge of Audit, High-Tech and Consulting. Mr. Fellus was with this accounting firm for 35 years, of which 25 years as Partner engaged, *inter alia*, in audit management for public and private companies with significant business volumes.

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, licensed CPA, graduate degree in Political Science and National Security.

Mr. Kaplan has been serving as Board member of the Bank since May 2011. Currently, Mr. Kaplan is member of the Risk Management Committee, Technology Committee, Credit Committee and Union Bank Integration Committee (this Committee was eliminated in the first quarter of 2023, after completion of the merger).

Mr. Kaplan has been serving as Board member of the Bank since May 2011. Currently, Mr. Kaplan is member of the Risk Management Committee, Technology Committee, Credit Committee and Union Bank Integration Committee.

Mr. Kaplan has served (1999-2001) as Director General of the Tax Authority; Previously he has worked (since 1982) at the Tax Authority and has served (since 1993) as Deputy Director General for Tax Assessment; Mr. Kaplan has also been serving for 20 years as economic consultant to public and private companies engaged, *inter alia*, in consulting on issues of management and taxation.

Mr. Kaplan has also been serving as Board member of other public companies.

Ilan Kremer

Undergraduate degree in Physics and Computer Science, Graduate degree in Computer Science, PhD in Financing.

Mr. Kremer has been serving as Board member of the Bank since March 2019. He currently is member of the Risk Management Committee

Mr. Kremer has been Professor of Economics and Financing at the Hebrew University (2011 to date) and Professor of Economics at Warwick University, UK (2012 to date). Mr. Kremer was also (2000-2012) Professor of Financing at Stanford University, USA; Mr. Kremer has been serving, *inter alia*, as lecturer on business and accounting matters and on matters related to financial statements.

Gilad Rabinobich

Undergraduate degree in Economics and graduate degree in Israel Studies.

Mr. Rabinobich serves as Board member of the Bank as from March 2019. In February 2020, Mr. Rabinobich was appointed Chairman of the IT and Innovation Committee. Currently, Mr. Rabinobich is member of the Audit Committee, Remuneration Committee, Risk Management Committee, IT Committee and Union Bank Integration Committee ,Credit Committee and Union Bank Integration Committee (this Committee was eliminated in the first quarter of 2023, after completion of the merger).Mr. Rabinobich has served as CEO of Malam Systems Ltd. (Public company) from December 2001 to June 2006.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and customer base.

Regulation 26a – List of senior Bank executives[1]

Below is information about senior Bank officers as of the issue date of the financial statements:

Moshe Lari[2]

ID	28405934
Birth date	1971
Title	President & CEO
Start of term in office	November 8, 2009 (since September 16, 2020 – as Bank President & CEO)
Position held with the banking corporation	President & CEO
Position held with the subsidiary	Chairman of Mizrahi Tefahot Technology Division Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting, Hebrew University, Jerusalem. Graduate degree in Business Administration from Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Financial Division – CFO at Bank Mizrahi Tefahot Ltd. Chairman of Mizrahi Tefahot Issue Company Ltd., Chairman of Mizrahi Tefahot Trust Company Ltd., Chairman of Union Bank Le-Israel Ltd., Chairman of Hamizrahi Bank Switzerland, Board member of Bank Yahav, Board member of UNITED MIZRAHI OVERSEAS HOLDING COMPANY B.V.

Menahem Aviv

ID	012390175
Birth date	1959
Start of term in office	April 13, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Information and Reporting Division and Chief Accountant.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Economics – Tel Aviv University. MBA – Tel Aviv University, CPA.
Business experience (in past 5 years)	Chief Accountant, Bank Mizrahi Tefahot Ltd., Board member of Union Bank Le-Israel Ltd., Board member of Mizrahi Tefahot Issue Company Ltd., Board member of T.A.M Information Systems Ltd.

Shevy Shemer

ID	059030957
Birth date	1964
Start of term in office	April 1, 2022
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division, Chairman of the Board of Directors, Mizrahi Tefahot Leasing Ltd., Board member of Tefahot Insurance Agency (1989) Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Industrial Engineering (Information Systems) – Ben Gurion University. MBA – Ben Gurion University.
Business experience (in past 5 years)	CEO of Union Bank. EVP – Manager, Retail Division, Customer Assets and Advisory – Union Bank.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Mr. Moshe Lari is an interested party due to his office as President & CEO of the Bank.

Regulation 26a – List of senior Bank executives[1] – continued

Adi Shachaf

ID	025735598
Birth date	1974
Start of term in office	September 16, 2020
Title	Vice-president.
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Division – CFO Chairman of Mizrahi Tefahot Issue Company Ltd., Chairman of Mizrahi Tefahot Trust Company Ltd., Chairman of Mizrahi Tefahot INVEST Ltd., Board member of UNITED MIZRAHI OVERSEAS HOLDING .COMPANY B.V.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology – Hebrew University, Jerusalem. Graduate degree in Business Administration – Hebrew University, Jerusalem.
Business experience (in past 5 years)	Deputy Manager, Finance Division at Bank Mizrahi Tefahot Ltd., Board member of Union Bank Le-Israel Ltd.

Galit Weiser[2]

ID	023878341
Birth date	1968
Start of term in office	July 7, 2011
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor of Bank Yahav, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi Tefahot Trust Company Ltd., Mizrahi Tefahot Issue Company Ltd., Netzivim Assets and Equipment Ltd., Tefahot Insurance Agency (1989) Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Statistics from the Hebrew University, Jerusalem. Graduate degree in Business Administration from the Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor; Manager, Internal Audit Division, Bank Mizrahi Tefahot Ltd.

Ayala Hakim

ID	056593767
Birth date	1960
Start of term in office	July 1, 2013
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Board member of Netzivim Assets and Equipment Ltd., Board member of Mizrahi Tefahot INVEST Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University; Has technology expertise.
Business experience (in past 5 years)	Manager, Mizrahi Tefahot Technology Division Ltd.; CIO of Bank Mizrahi Tefahot Ltd., Board member of Union Bank Le-Israel Ltd.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Pursuant to provisions of Section 146(B) of the Corporations Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Regulation 26a – List of senior Bank executives[1] – continued

Nissan Levy

ID	59857946
Birth date	1967
Start of term in office	February 2, 2014 (since January 01, 2020 – in their current office)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Capital, Resources and Operations Division. Chairman of Mizrahi Tefahot Security Services Ltd., Chairman of Netzivim Assets and Equipment Ltd., Chairman of Lots 1 2 3 New Commercial Center Ltd., Chairman of T.A.M Information Systems Ltd., Board member of Tefahot Insurance Agency (1989) Ltd., Board member of Mizrahi Tefahot Underwriting and Issues (1980) Ltd., Chairman of Igud Odafim Ltd., Chairman of Igudim Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting, Hebrew University, Jerusalem. Graduate degree in Business Administration from the Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Manager, Planning, Operations and Customer Asset Division at Bank Mizrahi Tefahot Ltd.; Chair, Mizrahi Tefahot Trust Company Ltd., Chair, Mizrahi Tefahot Technology Division Ltd.

Ofir Morad

ID	24607806
Birth date	1969
Start of term in office	January 1, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Business Banking Division Board member of Bank Yahav for Government Employees Ltd., Chair, Mizrahi Tefahot Factoring Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration – Bar Ilan University Graduate degree in Industrial Engineering – Ben Gurion University
Business experience (in past 5 years)	Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Terry Yaskil

ID	016834145
Birth date	1973
Start of term in office	November 1, 2021
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Advertising and Corporate Development Division, Board member of Tefahot INVEST Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology, Ben Gurion University Graduate degree in Cognitive Psychology (no thesis) – Ben Gurion University.
Business experience (in past 5 years)	VP, Marketing and Service at Partner Group.

(1) Senior officers include no family members of another senior officer or interested party.
(2) (2) Will conclude their term in office with the Bank on March 31, 2023.

Regulation 26a – List of senior Bank executives[1] – continued

Rachel Friedman

ID	057222200
Birth date	1961
Start of term in office	January 1, 2015
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel; Manager, Legal Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate Law degree (LL. B) – Tel Aviv University Graduate Law degree (LL. M) – Tel Aviv University.
Business experience (in past 5 years)	Chief Legal Counsel; Manager, Legal Division of Bank Mizrahi Tefahot Ltd.

Doron Klauzner

ID	51277556
Birth date	1952
Start of term in office	November 8, 2009 (since January 01, 2014 – in their current office)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risks Control Division, CRO.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration – Bar Ilan University
Business experience (in past 5 years)	Manager, Risks Control Division – CRO at Bank Mizrahi Tefahot Ltd.

Ofer Horvitz

ID	040573743
Birth date	1980
Start of term in office	March 1, 2020
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Bank Secretary and Manager, Bank Headquarters
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Combined undergraduate degrees in: Philosophy, Economics and Political Science – Hebrew University, Jerusalem.
Business experience (in past 5 years)	Personal assistant to President & CEO of Bank Mizrahi-Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Will conclude their term in office with the Bank on March 31, 2023.

Reg. 26b – Authorized signatories of the Bank

The Bank has no sole authorized signatory.

Regulation 27 – Independent Auditor of the Bank

Brightman Almagor Zohar & Co., CPAs, 1 Azrieli Center, Tel Aviv.

Reg. 28 - Changes to Articles of Incorporation or to Bylaws

In the reported period, no changes were made to Articles of Incorporation nor to Bylaws of the Bank.

Regulation 29 – Recommendations and decisions by Board members

A. Recommendations by Board members to the General Meeting and resolutions not requiring approval by the General Meeting, with regard to matters listed in the Bylaws:

1. Under the new five-year strategic plan for 2021-2025, approved by the Board of Directors on April 26, 2021, the Board of Directors shall monitor execution of the new strategic plan, in order to consider potential increase of the dividends rate up to 50% of net profit attributable to equity holders of the Bank, upon conclusion of the Union Bank merger process; This would be subject to Bank compliance with the ratio of Tier I equity to risk components, as required by the Supervisor of Banks, maintaining appropriate margins and subject to approval by the Supervisor of Banks.

   Note that the aforementioned dividends policy does not constitute any resolution nor commitment to make any dividends distribution, and that any "distribution" would be subject to approvals as required by law, including approval of the distribution by the Board of Directors, all at the discretion of the Board of Directors and subject to all statutory provisions.

   Below are details of dividend distributions by the Bank in the reported period:

   – On March 15, 2022: NIS 271.6 million (40% of net profit in the first quarter of 2022).

   – On August 30, 2022: NIS 315.9 million (30% of net profit in the second quarter of 2022).

   – On December 13, 2022: NIS 353.4 million (30% of net profit in the third quarter of 2022).

   Dividends declared with respect to earnings in the fourth quarter of 2022

   On March 13, 2023, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 326.1 million, or 30% of earnings in the fourth quarter of 2022, in conformity with the Bank's dividend policy, and in order to support future growth of the Bank in view of developments in the macro-economic environment.

   The dividends are 1267.9% of issued share capital, i.e. NIS 1.2679 per NIS 0.1 par value share. The effective date for dividends payment is March 21, 2023and the payment date is March 28, 2023. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

2. On March 7, 2022, the Bank Board of Directors approved, after approval by the Remuneration Committee, contracting by the Bank of a Board member and officer liability insurance policy, for a term of 12 months as from April 1, 2022 pursuant to Regulation 1B1 and pursuant to Regulations 1A1 and 1B(a)(5) of the Corporate Regulations (Relief for transactions with interested parties), 2000.

   This insurance policy covers, *inter alia*, the Bank President & CEO, controlling shareholders of the Bank and relatives thereof. For more information see Immediate Report by the Bank dated March 7, 2022 (reference: 2022-01-026989-01-103756).

B. Resolutions by the General Meeting made other than in accordance with recommendations made by Board members on issues set forth in sub-section (a): None.

C. Resolutions by an extraordinary General Meeting:

The Extraordinary General Meeting held on August 9, 2022 resolved to approve re-appointment of Mr. Joseph Fellus as External Board member of the Bank, pursuant to the Corporate Law (also compliant with qualifications for External Board member pursuant to Directive 301) for a further term of three (3) years as from August 20, 2022.

The annual General Meeting held on December 21, 2022 resolved to:

A. Re-appoint Brightman Almagor Zohar & Co. as the Bank's Independent Auditor through the next annual General Meeting of Bank shareholders.
B. Re-appoint Mr. Moshe Vidman (Chairman of the Board of Directors) as Board member of the Bank for a term through the next Annual General Meeting (to be held in 2023).
C. Re-appoint Messrs. Ron Gazit, Jonathan Kaplan, Avi Zeldman, Ilan Kremer and Eli Elroy as Board members of the Bank for terms through the third Annual General Meeting to follow the Annual General Meeting at which they were re-appointed).

Regulation 29a(4) – Corporate resolutions

See Note 26.C.(5-9) to the financial statements, and with regard to the Bank contracting an a Board member and officer liability insurance policy, see regulation 29, section A2 above.

Ramat Gan, March 14, 2023

Names of signatories:

Menahem Aviv	**Ofer Horvitz**
Vice-president,	Bank Secretary
Chief Accountant	

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS INDEPENDENCE				
			True	**False**
1.		Throughout the reported year, the Board included two or more external Board members. For this question, you may answer "True" if the duration in which there were not two external Board members does not exceed 90 days, as set forth in Section 363A.(b)(10) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when the Board did not include two or more external Board members in the reported year (including any term in office retroactively approved, separately for different external Board members): Board member A: **Ms. Hannah Fayer** Board member B: **Mr. Gilad Rabinobich** Board member C: **Mr. Joseph Fellus** Board member D: **Estheri Giloz-Ran** The number of external Board members currently in office as of the publication date of this questionnaire: **4.**	✓	

[1]Published in conjunction with proposed legislation for improvement of reports on March 16, 2014.

2.		The rate of [2]independent Board members[3] currently in office as of the publication date of this questionnaire: **4/10**. The rate of independent Board members set in the corporate [4]Bylaws:[5] **Pursuant to the Supervisor of Banks' Proper Conduct of Banking Business Directive regarding "Board of Directors", at least one third of Board members of a banking corporation would be external Board members, as this term is defined in said Directive ("External Board Members as Directed by the Supervisor"). As of the publication date of this questionnaire, the Bank has four (4) external Board members, as this term is defined in the Companies Law, 1999, who also qualify as External Board Members as Directed by the Supervisor. All external Board members, as noted, are also independent Board members.** ☐ N/A (no provisions included in the bylaws).		
3.		In the reported year, a review with the external Board members (and independent Board members) found that in the reported year, they were in compliance with provisions of Section 240(b) and (f) of the Companies Law with regard to no affiliation of external (and independent) Board members in office, and also meet the conditions for serving as external (or independent) Board member. **Each of the external Board members (who is also an independent Board member) has certified to the Bank that they were in compliance with provisions of Section 240(b) and (f) of the Companies Law with regard to no affiliation and also meet the conditions for serving as external (or independent) Board member, as noted above.**	✓	

[2] In this questionnaire, "**rate**" means number out of the total. For example: 3/8.
[3] Including "external Board members" as defined in the Companies Law.
[4] For this matter, "Bylaws" including pursuant to specific statutory provisions applicable to the Corporation (for example, for a banking corporation – directives of the Supervisor of Banks).
[5] A bond company is exempt from answering this item.

4.		All Board members in office during the reported year do not report to the CEO[6], directly or indirectly (other than a Board member who is an employee representative, if any). If you answered False (i.e. the Board member reports to the CEO) – indicate the rate of Board members who failed to meet this criterion: ___.	✓	
5.		All Board members who announced they had a personal interest in approval of a transaction on the agenda of the meeting, did not attend discussion and did not participate in voting (other than discussion and/or voting under circumstances as set forth in Section 278(b) of the Companies Law): If you answered False – Was this for the purpose of presenting a certain matter thereby, in conformity with provisions of Section 278(a): ☐ YES ☐ NO (check as appropriate). Indicate the rate of meetings at which such Board members attended and/or participated in voting, other than under circumstances as set forth in sub-section a: ___.	✓	

6 With regard to this question – merely holding the office of Board member with a corporation owned and controlled by the Corporation shall not constitute "reporting"; conversely, holding the office of Board member with a corporation that is an officer (other than Board member) and/or employee of a corporation owned and controlled by the Corporation shall constitute "reporting" for the purpose of this question.

6.		The controlling shareholder (including relative thereof and/or anyone on behalf thereof), who is not a Board member or senior officer of the corporation, did not attend meetings of the Board of Directors held during the reported year. If you answered False (i.e. the controlling shareholder and/or relative thereof and/or anyone on behalf thereof, who is not a Board member or senior officer of the corporation, did attend such meetings of the Board of Directors) – indicate the following information regarding attendance of any other person at such meetings of the Board of Directors: Identity: ____. Position with the corporation (if any): _____. Affiliation with the controlling shareholder (if the person attending is other than the controlling shareholder): _____. Was this for the purpose of presenting a certain matter thereby: ☐ YES ☐ NO (check as appropriate). [7]Their attendance rate at meetings of the Board of Directors held during the reported year for presenting a certain matter thereby: _____, other attendance: _____. ☐Not applicable (the corporation does not have a controlling shareholder).	✓	

7 Separating the controlling shareholder, any relative thereof and/or anyone on behalf thereof.

BOARD MEMBER QUALIFICATIONS AND SKILLS					
				True	False
7.		The corporate Bylaws include no provision limiting the option for immediate termination of term in office of all Board members of the corporation, other than external Board members (for this matter – a resolution by simple majority is not considered a limitation).[8] If you answered False (i.e. there is such limitation), indicate –		✓	
		A.	Term in office for Board member, as set forth in the Bylaws: _____.		
		B.	Majority required in the Bylaws for terminating a Board member's term in office: _____.		
		C.	Legal quorum specified in the Bylaws for a General Meeting, for terminating a Board member's term in office: _____.		
		D.	Majority required to amend these provisions of the Bylaws: _____.		
8.		The corporation has put in place a training program for new Board members with regard to the corporation's business and laws applicable to the corporation and to Board members, and has put in place a continuing program for training incumbent Board members suitable, *inter alia*, to the Board member's role within the corporation. If you answered True – indicate if this program was active in the reported year: ☒ YES ☐ ~~NO~~ (check as appropriate)		✓	

[8] A bond company is exempt from answering this item.

9.		A.	The corporation has specified the minimum number of Board members to have accounting and financial expertise. If you answered True – indicate the minimum number specified: **At least three (3) Board members (pursuant to a resolution by the Board of Directors) and at least one fifth (1/5) of all Board members (in conformity with Proper Conduct of Banking Business Directive with regard to the Board of Directors, issued by the Supervisor of Banks).**	✓	
		B.	The number of Board members in office during the reported year – Having accounting and financial expertise:[9] **8** Having professional qualifications:[10] **10** In case of changes to said number of Board members in the reported year, provide the lowest number (except for the 60-day period after such change) of Board members of each category who served in the reported year. **As of the publication date of this questionnaire, all Board members at the Bank are classified as "Expert Board members" for the purpose of Companies Regulations (Rules for remuneration and expense reimbursement for external Board members), 2000.**		
10.		A.	Throughout the reported year, the Board of Directors consisted of Board members of both genders. If you answered False – indicate the duration (in days) when this was false: _____. For this question, you may answer "True" if the duration in which there were no Board members of both genders does not exceed 60 days; However, for any answer (True or False), indicate the duration (in days) when the Board did not include Board members of both genders: _____.	✓	
		B.	The number of Board members of each gender currently in office as of the publication date of this questionnaire: Male: **8**, Female: **2**.	_____	_____

[9] After assessment by the Board of Directors, in conformity with Corporate Regulations (Requirements and tests for Board members with accounting and financial skills and for Board members with professional skills), 2005.

[10] See footnote 9.

BOARD MEETINGS (AND GENERAL MEETING OF SHAREHOLDERS)

11		A.	Number of Board meetings held in each quarter of the reported year: First quarter (of 2022): 5. Second quarter (of 2022): 4. Third quarter (of 2022): 4. Fourth quarter (of 2022): 9.	
		B.	Next to each name of a Board member who served the corporation during the reported year, indicate their attendance rate[11] at Board meetings (in this sub-section: including meetings of Board committees they are member of, as noted below) held during the reported year (with reference to their term in office):	

[11] See footnote 2.

Board member name	Attendance rate at **Board** meetings	Attendance rate at meetings of the **Audit Committee**[12]	Attendance rate at meetings of the **Financial Statements Review Committee**[13]	Attendance rate at meetings of the **Remuneration Committee**[14]	Their attendance rate at meetings of **other Board committees of which they are a member** (please indicate the committee name)[15]					
		The Audit Committee also serves as the Financial Statements Review Committee.[16]			**Credit Committee**	**Risk Management Committee**	**IT and Technology Innovation Committee**	**Ad-hoc Union Bank Integration Committee**	**Ad-hoc committee, established on April 11, 2022, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**[17]	**Ad-hoc committee, established on August 15, 2022, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**[18]
Moshe Vidman[19]	100%	–	–	100%	100%	100%	100%	100%	100%	–
Ron Gazit	100%	–	–	–	100%	–	100%	–	–	–

12 For Board member who is a member of this committee.
13 For Board member who is a member of this committee.
14 For Board member who is a member of this committee.
15 For a Board member who is a committee member.
16 Details of attendance rate at meetings of the Audit Committee (as set forth in the third column of this table) refer to meetings of the Audit Committee, other than meetings involving the financial statements. Also, details of attendance rate at meetings of the Audit Committee (as set forth in the fourth column of this table) refer to meetings of the Audit Committee involving the financial statements.
17 The Committee was convened once.
18 The Committee was convened once.
19 Moshe Vidman (who serves as Chairman of the Board of Directors) is not member of the Audit Committee but attends as observer the meetings of the Audit Committee in conjunction with the approval process of financial statements. This is in conformity with the position of the Supervisor of Banks, as provided in "Q&A regarding implementation of Proper Conduct of Banking Business Directive 301 with regard to the Board of Directors".

Board member name	Attendance rate at **Board meetings**	Attendance rate at **Audit Committee**	Attendance rate at **Financial Statements Review Committee**	Attendance rate at **Remuneration Committee**	Attendance rate at **Credit Committee**	Attendance rate at **Risk Management Committee**	Attendance rate at **IT and Technology Innovation Committee**	Attendance rate at **Ad-hoc Union Bank Integration Committee**	**Ad-hoc committee, established on April 11, 2022, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**	**Ad-hoc committee, established on August 15, 2022, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**
Jonathan Kaplan	95%	–	–	–	91%	100%	100%	100%	–	–
Avraham Zeldman	95%	100%	100%	–	–	100%	–	100%	–	–
Hannah Fayer	100%	95%	100%	100%	100%	–	–	–	100%	100%
Gilad Rabinobich	100%	100%	100%	100%	–	100%	100%	100%	100%	100%
Ilan Kremer	100%	–	–	–	–	92%	–	–	–	–
Eli Alroy	95%	–	–	–	–	–	86%	100%	–	–
Joseph Fellus	100%	100%	100%	100%	100%	100%	–	100%	–	100%
Estheri Giloz-Ran	100%	100%	100%	100%	–	–	100%	–	–	–

		True	F
12.	In the reported year, the Board of Directors held one or more discussions regarding management of corporate business by the CEO and officers reporting there to, in their absence, and they were given an opportunity to express their opinion.	✓	

SEPARATION OF ROLES OF THE CEO AND CHAIRMAN OF THE BOARD				
			True	**False**
13.		Throughout the reported year, the corporation was served by a Chairman of the Board of Directors. For this question, you may answer "True" if the duration in which there was no Chairman of the Board of Directors at the corporation does not exceed 60 days, as set forth in Section 363a.(2) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when there was no Chairman of the Board of Directors at the corporation: _____.	✓	
14.		Throughout the reported year, the corporation was served by a CEO. For this question, you may answer "True" if the duration in which there was no CEO at the corporation does not exceed 90 days, as set forth in Section 363a.(6) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when there was no CEO at the corporation: __.	✓	

15.		For a corporation where the Chairman of the Board of Directors also serves as CEO and/or exercises their authority, this dual office was approved in conformity with provisions of Section 121(c) of the Companies Law.[20] ☑ Not applicable (as there is no such dual office at the Corporation).			
16.		The CEO is <u>not</u> related to the Chairman of the Board of Directors. If you answered False (i.e. the CEO is related to the Chairman of the Board of Directors) –		✓	
		A.	Indicate the family relationship between them: _____.	_____	_____
		B.	The office was approved pursuant to Section 121(c) of the Companies Law.[21] ☐ YES ☐ NO *(Check as appropriate)*	_____	_____
17.		A controlling shareholder or relative thereof does <u>not</u> serve as CEO or senior officer of the corporation, other than as Board member. ☐ Not applicable (the Corporation does not have a controlling shareholder).		✓	

[20] For a bond company – approval pursuant to Section 121(d) of the Companies Law.
[21] For a bond company – approval pursuant to Section 121(d) of the Companies Law.

AUDIT COMMITTEE

				True	False
18.		During the reported year, the Audit Committee did not include –		_____	_____
		A.	The controlling shareholder or relative thereof. □ Not applicable (the Corporation does not have a controlling shareholder).	✓	
		B.	Chairman of the Board of Directors.	✓	
		C.	A Board member employed by the corporation, or by the controlling shareholder of the corporation, or by a corporation controlled thereby.	✓	
		D.	A Board member who regularly provides services to the corporation, or to the controlling shareholder of the corporation, or to a corporation controlled thereby.	✓	
		E.	A Board member whose livelihood primarily depends on the controlling shareholder. □ Not applicable (the Corporation does not have a controlling shareholder).	✓	
19.		Anyone not permitted to be member of the Audit Committee, including a controlling shareholder or relative thereof, did not attend, during the reported year, meetings of the Audit Committee other then pursuant to provisions of Section 115(e) of the Companies Law.		✓	
20.		The legal quorum for discussion and passing resolutions at all Audit Committee meetings held during the reported period was a majority of Committee members, with a majority of those present being independent Board members and at least one of them was an external Board member. If you answered False – indicate the rate of meetings where this requirement was not fulfilled: _____.		✓	
21.	During the reported year, the Audit Committee held one or more meetings attended by the Internal Auditor and by the Independent Auditor, and not attended by officers of the corporation other then Committee members, regarding deficiencies in business management of the corporation.			✓	

22.	At all meetings of the Audit Committee attended by anyone not permitted to be member of this Committee, this was approved by the Committee Chair and/or requested by the Committee (with regard to Legal Counsel and Corporate Secretary who is not a controlling shareholder or relative thereof).	✓	
23.	During the reported period, arrangements were in place as determined by the Audit Committee, regarding handling of complaints by employees of the corporation about deficiencies in business management of the corporation and regarding protection to be extended to employees who make such complaints.	✓	
24.	The Audit Committee (and/or the Financial Statements Review Committee) was satisfied that the scope of work of the Independent Auditor and their fee with regard to the financial statements in the reported year, were appropriate for carrying out proper audit and review work.	✓	

ROLES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER: "THE COMMITTEE") IN ITS WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS				
			True	**False**
25.	A.	Please indicate the duration (in days) determined by the Board of Directors to be a reasonable time for providing recommendations of the committee prior to a Board meeting convened to approve the financial statements: **3 days – however, by decision of the Board of Directors, the Chairman of the Board of Directors may instruct, at their discretion, that the recommendations be provided to Board members sooner or later than the foregoing, provided this is reasonable under the circumstances.**		____
	B.	Actual number of days between providing the recommendations to the Board of Directors, and the date of Board discussion to approve the financial statements: Financial statements for the first quarter (of 2022): 7 Financial statements for the second quarter (of 2022): 5 Financial statements for the third quarter (of 2022): 7 Annual report (for 2022): 4	____	____

	C.	Number of days between providing the draft financial statements to Board members, and the date of Board discussion to approve the financial statements: Financial statements for the first quarter (of 2022): 12 Financial statements for the second quarter (of 2022): 11 Financial statements for the third quarter (of 2022): 11 Annual report (for 2022): 12		
26.		The Corporation's Independent Auditor attended all meetings of the Committee and of the Board of Directors convened to discuss the Corporation's financial statements for periods within the reported period. If you answered False – indicate their attendance rate: _____.	✓	
27.		During the reported year and through publication of the annual report, the Committee fulfilled all of the following conditions:	_____	_____
	A.	The number of members was three or more (upon discussion by the Committee and approval of the aforesaid reports).	✓	
	B.	All conditions set forth in Section 115(b) and (c) of the Companies Law (regarding office of Audit Committee members) were fulfilled.	✓	
	C.	The Committee Chair is an external Board member.	✓	

	D.	All Committee members were Board members, and a majority of Committee members were independent Board members.	✓	
	E.	All Committee members are able to read and understand financial statements, and one or more of the independent Board members has accounting and financial expertise.	✓	
	F.	Committee members have provided certification prior to their appointment.	✓	
	G.	Legal quorum for discussion and voting on resolutions by the Committee was a majority of Committee members, provided that a majority of those in attendance are independent Board members, including one or more external Board members.	✓	
	If you answered False to any of the sub-sections of this item, indicate for which report (periodic / quarterly) the condition was not fulfilled, and which condition was not fulfilled: _____.		_____	_____

REMUNERATION COMMITTEE					
				True	**False**
28.		During the reported period, the Committee included at least three members and external Board members constituted a majority of Committee members (on the date of discussion by the Committee). ☐Not applicable. (No discussions took place).		✓	
29.		Terms of office and employment of all Remuneration Committee members in the reported year were in conformity with Companies Regulations (Rules for remuneration and expense reimbursement for external Board members), 2000.		✓	
30.		During the reported year, the Remuneration Committee did not include –		_____	_____
		A.	The controlling shareholder or relative thereof. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	

		B.	Chairman of the Board of Directors.	✓	
		C.	A Board member employed by the corporation, or by the controlling shareholder of the corporation, or by a corporation controlled thereby.	✓	
		D.	A Board member who regularly provides services to the corporation, or to the controlling shareholder of the corporation, or to a corporation controlled thereby.	✓	
		E.	A Board member whose livelihood primarily depends on the controlling shareholder. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	
31.		During the reported period, a controlling shareholder, or relative thereof, did not attend meetings of the Remuneration Committee, unless the Committee Chair has ruled that they are required to attend for presentation of any particular matter.		✓	

32.	The Remuneration Committee and the Board of Directors did not exercise their authority pursuant to Sections 267a(c), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or remuneration policy, despite the objection of the General Meeting of shareholders. If you answered False, please indicate – The type of transaction thus approved: _____ The number of times they exercised their authority in the reported year: _____	✓	

INTERNAL AUDITOR

		True	False
33.	The Chairman of the Board of Directors or the CEO of the corporation is the organizational supervisor of the corporation's Internal Auditor.	✓	
34.	The Chairman of the Board of Directors or the Audit Committee have approved the work plan in the reported year. Also list audit topics addressed by the Internal Auditor in the reported year: 2022 (check as appropriate). **Internal Audit operates based on a risk-based audit plan. The work plan for 2022 and the multi-annual work plan were discussed by the Audit Committee and approved by the Board of Directors plenum. In 2022, in conformity with the work plan, Internal Audit addressed, *inter alia*, topics related to credit risk, financial risk, compliance risk, operating risk, AML etc. For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2022 annual report.**	✓	

35.	Scope of employment of the corporation's Internal Auditor in the reported year (in hours):[22] **Full-time position** **For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2022 annual report.**		
	In the reported year, the Audit Committee or the Board of Directors discussed the Internal Auditor's findings.	✓	
36.	The Internal Auditor is not an interested party in the corporation, relative thereof, Independent Auditor or anyone on behalf thereof, and has no substantial business relations with the corporation, the controlling shareholder thereof, any relative thereof or corporations controlled thereby.	✓	

[22] Including work with regard to investees and audit work outside of Israel, as the case may be.

TRANSACTIONS WITH INTERESTED PARTIES			
		True	**False**
37.	The controlling shareholder or relative thereof (including company controlled thereby) is not employed by nor provides management services to the corporation. If you answered False (i.e. the controlling shareholder or relative thereof is employed by nor provides management services to the corporation), indicate – – The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled thereby and/or through management companies): _____. – Were the employment agreements and/or management services agreements approved by the organs as set forth by law: ☐ YES ☐ NO (Check as appropriate) ☐ Not applicable (the corporation does not have a controlling shareholder).	✓	

38.	To the best of the corporation's knowledge, the controlling shareholder has no other business in the corporation's operating segment (in one or more segments). If you answered False – indicate whether an agreement to delineate operations has been reached by the corporation and the controlling shareholder thereof: ☐ YES ☐ NO (Check as appropriate) ☐Not applicable (the Corporation does not have a controlling shareholder).	✓	

Chairman of the Board of Directors: Mr. Moshe Vidman

Chairman of the Audit Committee (also serves as the Financial Statement Review Committee): Mr. Joseph Fellus

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