RISK MANAGEMENT REPORT AS OF 30.06.2023

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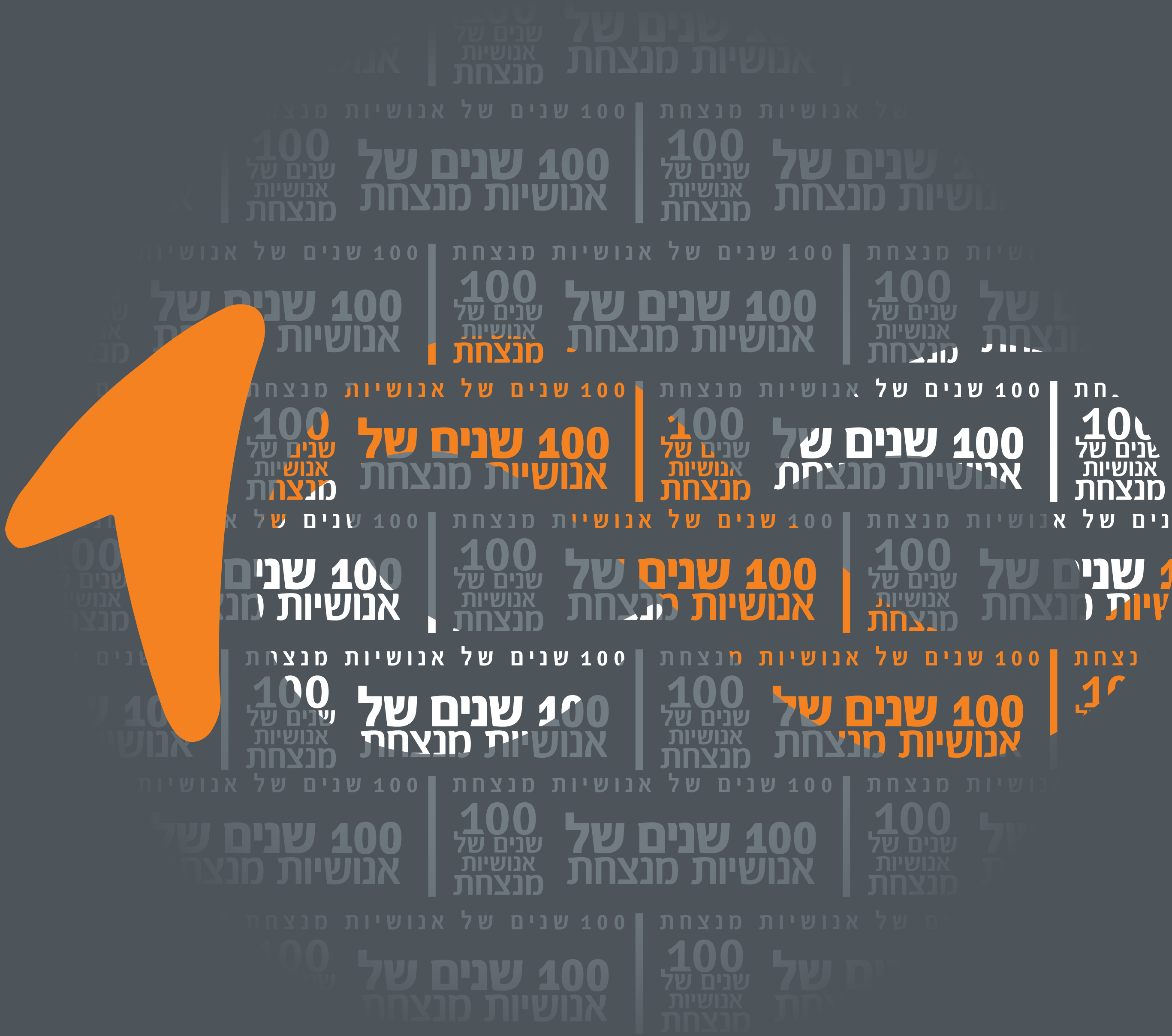
100 years
MIZRAHI TEFAHOT



Moving Forward While Staying Personal, For 100 Years Now.

This report includes supplementary information to the Bank's financial statements and is prepared in accordance with the Supervisor of Banks' directives, which include disclosure requirements from Basel Pillar III and additional disclosure requirements by the Financial Stability Board (FSB). The Israel Securities Authority's MAGNA website includes the following reports: The condensed financial statements, as well as in XBRL format, this risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these reports are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports. In accordance with the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013, the website also includes accessible reports.

Bank Mizrahi Tefahot

Risks Report for the second quarter of 2023

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

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

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

-Hyperlink Removed- > About the Bank > Investor Relations > Financial Information

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Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof as of June 30, 2023. The condensed financial statements and additional information to the condensed financial statements, including the Report of the Board of Directors and Management, this Risks Report and other supervisory disclosures have been approved for publication by the Bank's Board of Directors at its meeting held on August 14, 2023.

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

In conformity with the Supervisor of Banks' public reporting directives, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose analysis and presentation on quarterly basis is material for readers of the report.

If needed, this report should be read in conjunction with the 2022 Risks Report.

The disclosure in this report is designated to allow users to evaluate significant information included with regard to implementation of the framework for capital measurement and capital adequacy and to implementation of provisions of "Basel III: Global supervisory framework to improve stability of the banking system".

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

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

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

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

Approval date of the financial statements and risks report:
Ramat Gan, August 14, 2023

Forward-looking information

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

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

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

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

Key supervisory ratios and overview of risk management and risk assets

Key supervisory ratios – key data

Below is key data relevant for the Bank's risk profile (NIS in millions):

	2023		2022			
	Second quarter	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
Key supervisory and financial ratios						
Available capital						
Tier I equity[(1)]	26,908	26,001	25,072	24,332	23,567	22,650
Tier I capital before effect of transitional provisions	26,724	25,813	24,791	24,047	23,277	22,355
Total capital	35,390	34,263	33,087	32,186	31,555	30,314
Total capital before effect of transitional provisions	35,345	34,213	32,828	31,923	31,287	30,097
Risk weighted assets						
Total risk weighted assets (RWA)	262,909	256,874	252,251	245,282	235,783	226,301
Capital adequacy ratio (in %)						
Tier I capital ratio(1)	10.23	10.12	9.94	9.92	10.00	10.01
Tier I capital ratio before effect of transitional provisions	10.16	10.03	9.78	9.75	9.85	9.86
Total capital ratio	13.46	13.34	13.12	13.12	13.38	13.40
Total capital ratio before effect of transitional provisions	13.43	13.29	12.95	12.94	13.25	13.28
Tier I capital ratio required by Supervisor of Banks[(2)]	9.60	9.60	9.60	9.61	9.62	9.61
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks[(2)]	0.63	0.52	0.34	0.31	0.38	0.40
Leverage ratio[(3)]						
Total exposure	469,461	469,925	463,010	462,856	450,369	426,244
Leverage ratio (in %)	5.73	5.53	5.42	5.26	5.23	5.31
Leverage ratio before effect of transitional provisions (in %)	5.69	5.49	5.35	5.20	5.17	5.24
Liquidity coverage ratio[(4)]						
Total high quality liquid assets	80,940	83,031	84,000	84,602	84,379	85,927
Total outgoing cash flows, net	63,214	65,864	71,431	70,909	70,431	71,724
Liquidity coverage ratio (in %)	128	126	118	119	120	120
Net stable funding ratio[(5)]						
Total available stable funding	282,362	275,561	277,605	285,733	274,230	258,878
Total required stable funding	246,136	243,380	241,884	246,196	240,140	223,862
Net stable funding ratio (in %)	115	113	115	116	114	116
Performance benchmarks						
Net profit return on equity[(6)(7)]	22.0	22.4	18.5	20.8	19.4	[(7)]21.9
Net profit return on risk assets[(6)(7)]	2.15	2.15	1.92	1.96	1.82	2.07
Deposits from the public to loans to the public, net	108.9	111.6	112.0	113.6	109.9	110.5
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	1.01	0.98	0.93	0.91	0.88	0.89
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	0.90	0.88	0.87	0.91	0.94	1.13
Expenses with respect to credit losses to loans to the public, net for the period[(7)]	0.31	0.29	0.25	0.20	0.14	0.11
Of which: With respect to group provision	0.22	0.18	0.17	0.14	0.08	0.03
Of which: With respect to commercial loans other than residential mortgages	0.78	0.65	0.65	0.43	0.25	0.26
Of which: with respect to residential mortgages	0.04	0.08	0.02	0.07	0.08	0.03
Ratio of net accounting write-offs to average loans to the public[(7)]	0.12	0.07	0.22	0.05	0.06	0.03

	First half		All of
	2023	2022	2022
Performance benchmarks			
Net profit return on equity[(6)(7)]	22.2	[(8)]20.6	[(8)]20.1
Net profit return on risk assets[(6)(7)]	2.15	1.95	1.91
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period[(7)]	0.30	0.12	0.17
Of which: With respect to group provision	0.20	0.07	0.11
Of which: With respect to commercial loans other than residential mortgages	0.71	0.25	0.39
Of which: with respect to residential mortgages	0.06	0.05	0.05
Ratio of net accounting write-offs to average loans to the public[(7)]	0.10	0.05	0.09

Financial ratios indicate as follows:

- Net profit return on equity in the first half of the year was 22.2%, primarily due to increase in activity volume and to impact of higher interest and inflation.
- The ratio of Tier I capital to risk components increased to 10.23%. The minimum ratio required of the Bank is 9.60%.

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

(1) The Bank has no capital instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.
(2) Including a capital requirement at 1% of the residential mortgage balance as of the date of the financial statements.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.
(5) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. Calculated based on total net stable funding required for 12 months, derived from all Bank uses, to total net stable funding available for 12 months, calculated for all Bank sources.
(6) Net profit attributable to shareholders of the Bank.
(7) Annualized.
(8) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 and in the first quarter of 2022 was 19.0% and 16.6%, respectively.

Bank approach to risk management (OVA)

General information regarding management of various risks and the risk profile

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

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

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

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

Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. Risks management and control processes at the Bank Group are designed to identify, manage, monitor, quantify, avoid or mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. Business activity in diverse financial products and instruments exposes the Bank Group to various financial and non-financial risks, whose materialization has potential to impact its financial results or image. The Bank is exposed to financial risk, such as: credit risks, concentration risk, liquidity risk and market and interest risks, as well as non-financial risks, such as: Reputational risk, compliance and regulatory risk, operational risk including, inter alia: IT risk, information and cyber security risk, legal risk and other risk, such as: climate and environmental risk, strategic business risk, regulatory business risk[1] etc.

System-wide scenario

In line with customary world-wide practice, the Supervisor of Banks annually conducts a uniform macro-economic stress scenario for the banking system, designed to test systemic and individual financial stability in a different macro-economic environment and risk concentrations under an extreme scenario. In December 2022, the Supervisor of Banks published a uniform macro-economic stress scenario, originating from a global shock due to disruption to supply chains and the war in the Ukraine, resulting in world-wide shortage of basic raw materials and causing sharply higher inflation and economic slow-down. In response to the higher prices, central banks in Israel and around the world adopt a restrictive monetary policy and sharply raise interest rates. This scenario includes continued slow-down in local and global activity, along with sharply higher unemployment, impact to private consumption and lower prices of shares and bonds. These, along with curbing the inflation, cause the central banks to change direction and to sharply lower interest rates, in an attempt to revive economic activity and to prevent an even worse recession. Towards the end of the scenario, economic activity in Israel and world-wide recovers, inflation returns to its normal track and accordingly, the Bank of Israel starts to gradually raise interest rates. Results of the stress scenario, showing the expected evolution of the Bank's balance sheet and capital ratios were provided to the Bank of Israel in March 2023.
The Supervisor of Banks' 2022 Overview included the outcome of the system-wide uniform stress scenario. The results show that a macro-economic shock due to a global slow-down also reflected in recession in the Israeli economy, would significantly impact profitability of the banking system but not endanger its stability. Banks maintained appropriate capital ratios throughout the scenario, with the Tier I shareholders' equity ratio remaining above 6.5% (the minimum equity required by the Supervisor under a stress scenario). The scenario results indicate that higher inflation and interest rates result in higher net interest revenues in the banking system, but are a challenge for borrowers hence resulting in higher

[1] In this quarter, regulatory business risk is presented separately from strategic business risk, see below for more information.

credit losses. The stability of banks throughout the scenario is due to the Supervisor of Banks' policy in recent years regarding bolstering of capital, which contributed to relatively high capital ratios at the outset, helped banks to sustain shocks and maintained stability of banks throughout the stress scenario. The Bank's results also indicate robustness and stability throughout the scenario period, while maintaining appropriate regulatory capital and leverage ratios.

Major and emerging risks

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

As part of the risk mapping and identification process, the Bank reviews key risks, existing or new risks arising from developments in the Bank's business environment, which may materialize over the coming year and with potential to materially impact the Bank's financial results and stability. The Bank also identifies emerging risks, or risks which may materialize over the longer term, with uncertainty about their nature and impact on the Bank. The risks mapping is regularly reviewed to ensure that it encompasses all risk associated with business operations at the Bank, and risk arising from market conditions and regulatory requirements.

As from the first quarter of 2023, there has been uncertainty in the Israeli economy, in view of Government plans to promote changes to the judicial system and the public disagreement with regard to this move. During this period of uncertainty, volatility in NIS exchange rates and in equity markets in Israel increased at certain times. In July 2023, the Knesset passed a law curbing the use of the reasonability cause. Consequently, rating agencies Moody's and S&P issued statements, warning that continuation of this situation may harm the Israeli economy.

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. The Bank is preparing for these changes by, inter alia, adapting the banking production functions through, inter alia, increased investment in technology, so as to maintain the Bank's position as an advanced, human bank. This is material risk requiring risk management measures to be applied, assessment and early identification of events which may preclude implementation of the strategy.
On April 26, 2021, the Bank's Board of Directors approved a five-year strategic plan for 2021-2025 based, inter alia, on positioning the Bank as a key player in business banking, continued leadership position in the mortgage market, establishing the Bank Group's leadership position among households, providing personal, human banking services supported by advanced digital technology, including optimal combination of human and digital channels, with human service by expert bankers, including in digital, in accordance with customer choice and needs, as well as offering personalized value propositions across all channels, which are customized for customer needs, adapting the operating model to future challenges and further improvement in operating efficiency and leveraging the Union Bank merger to generate operating and business synergies and to realize economies of scale. For more information see Immediate Report dated April 27, 2021 (reference: 2021-01-071448). Bank results indicate that the Bank has surpassed the business objectives set in the strategic plan.

The Bank monitors developments of external factors which may impact the Bank's strategic business risk and implementation of its strategic plan. Developments in the business environment which may impact strategic risk include increased geo-political tension, its impact on local and global economic activity, uncertainty in view of Government plans to make changes to the judicial system and the public disagreement over such changes, effect of inflation and higher interest rates, which raised the cost of borrowing, technological developments in the world of finance and changes to consumer preferences.

in this quarter, regulatory business risk is presented separately from strategic business risk.

Regulatory business risk – This risk refers to legislation, including legislation in process, in core banking areas, as well as new regulation and regulatory expectations of the Bank of Israel, whether in process or completed, which may potentially impact core banking operations. The uncertainty with regard to impact of legislation concerning the judicial system and public disagreement on this matter also affect this risk, which is estimated to be Medium-High.

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

In Israel, interest rates continued to increase in the second quarter of 2023: in May, the Bank of Israel interest rate was raised to 4.75%, although it remained unchanged in the following month. Inflation was slightly more moderate – but remained high, above the Bank of Israel target range. Inflationary expectations in Israel and world-wide have been declining; therefore, capital market estimates that the upward trend in monetary interest rates is almost done. Some indicators point to slower growth in economic activity in Israel and world-wide. However, the local labor market continues to be tight, almost at full employment, but the downward trend in available jobs continues. The current interest rate and inflation environment made for higher borrowing costs and may impact credit risk. Furthermore, there is still some uncertainty with regard to long-term implications of the higher interest rate environment on business and economic activity. The Bank regularly monitors the potential effects on its business operations. On August 1, 2023, rating agency Fitch reduced the long-term credit rating of the USA, from AAA to AA+ with Stable outlook.

Technological risk – Technological risk is a significant risk, affected by accelerated evolution in technology and digital domains and by the need to provide response to changing customer needs. The legacy core systems in the banking system, along with multiple banking regulatory requirements and the need to implement technological tools on a short schedule, all increase technology risk. In the second quarter of 2023, the Technology Division continues to operate in support of normal Bank operations and in providing a response to current and future technology requirements for such operations.

As part of bolstering its technology infrastructure, the Bank invests heavily in technology systems, in order to address the evolving challenges in the business environment, while maintaining its differentiation as an advanced, human bank. The Bank is 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.

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

Cyber threats towards financial institutions are on the rise, hence the Bank reinforces the defense mechanisms applied by the Bank, in order to limit the ability to conduct un-authorized transactions in customer accounts, to maintain network and system robustness and to ensure the availability thereof. These actions are part of the debrief and lesson learning processes in place at the Bank with regard to this evolving threat. Geo-political events, such as tensions with Iran and the Russia-Ukraine war on the one hand, and increased use of cloud environments, increase in remote work and more sophisticated attacks, primarily ransomware attacks, all increase cyber risk.

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

Compliance and regulatory risk – Bank business operations are subject to regulation.[1] Compliance risk is the risk of imposition sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with various compliance provisions. Compliance provisions also include the following laws: ISA Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011; Securities Law 1968; Mutual Investment Law, 1994; Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Law, 1995 (hereinafter: "the Advisory Law"); hereinafter jointly – "securities laws" as well as the Economic Competition Law, 1988. Compliance with these laws is also handled by internal enforcement programs of securities laws and economic competition laws, respectively. Compliance risk also includes Bank compliance with fairness aspects and with privacy protection laws.

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

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

Environmental risk and climate risk

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

Climate risk – risk due to increased frequency and intensity of weather events due to climate change. The Bank faces risk of financial loss or impact to its reputation, due to materialization of physical events, processes or adjustment to transition risk due to climate change. Climate risk includes transition risk, which is regarded as long-term risk. Such risk

[1] Compliance and regulatory risks may arise from non-compliance with regulatory directives applicable to business operations, vs. regulatory business risk, which refers to the impact of new legislation and regulation in core matters of the financial system.

arises from the accommodation process to a low-carbon economy (such as: transition to renewable energy sources, carbon taxation, improved energy efficiency and so forth), as well as physical risk that may materialize due to direct impact of extreme events, such as fire, flooding, and due to prolonged change that may result from higher sea levels and temperature changes that may affect the ecological system, desertification processes and so forth.

In recent years, there has been growing awareness in Israel and world-wide of the existence and extent of financial risk due to potential impact of events and processes related to climate change.

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

In March 2023, the Supervisor of Banks conducted a system-wide survey of bank preparations for management of climate risk, based on similar surveys conducted by supervisory authorities around the world, such as the ECB. Results of this survey were presented in the Supervisor of Banks' 2022 Annual Review.

In June 2023, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 345 "Principles for effective management of climate-related financial risk", based on guidance in the 12 principles by the Basel Committee (dated June 2022). The effective start date of this directive is two years after publication thereof.

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

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

General mapping of risk factors and their impact

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

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

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

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

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Effect of the risk factor	Risk owner
Overall effect of credit risks[(1)]	Medium	Manager, Corporate Division
Risk with respect to borrower and collateral quality	Medium	
Risk from industry concentration[(1)]	Low-Medium	
Risk with respect to concentration of borrowers / borrower groups	Low	
Risk with respect to mortgage portfolio	Low-Medium	
Overall effect of market risks[(2)]	Low-Medium	Manager, Financial Division
Interest risk	Medium	
Inflation risk	Low-Medium	
Foreign currency risk	Low	
Liquidity risk	Low-Medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security risk	Medium	Manager, Risks Control Division
IT risk	Medium	Manager, Mizrahi Tefahot Technology Division Ltd.
Legal risk	Low-Medium	Chief Legal Counsel
Compliance and regulatory risks[(3)]	Low-Medium	Manager, Risks Control Division
Reputation risk[(4)]	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk[(5)]	Low-Medium	President & CEO
Regulatory-business risk[(6)]	Medium-High	President & CEO

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

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

In the second quarter of 2023, the Bank's risk assessment and risk profile remained unchanged from the first quarter of 2023 and from end of 2022,

Other than regulatory business risk, which is presented for the first time separately from strategic business risk, which is estimated to be Medium-High, and which refers to impact of new legislation and regulations and regulations in core matters of the financial system. The uncertainty with regard to impact of legislation concerning the judicial system and public disagreement on this matter also affect this risk.

Risk levels remained unchanged, in view of continued uncertainty with regard to impact of geo-political tension world-wide, the continued state of the global and local economy and changes to the macro-economic environment, development thereof and their impact on the Bank and, in particular, on credit and financial risk. The Bank continues with enhanced monitoring of the effects of changes on Bank operations and risk assessment.

The overall level of credit risk and risk associated with borrower quality and collateral remained Medium. Despite the significant decrease in impact of the Corona Virus crisis on business and economic activity of the Bank, the risk assessment remained unchanged and is slightly higher than previously, reflecting the continued uncertainty regarding impact of changes in the macro-economic environment locally and globally and continued increase in the interest rate environment, which is high, and in inflation, which is more moderate but still high. These changes may affect Bank operations, increase borrowing costs and affect credit risk.

The assessment of the total impact of credit risks and sector concentration includes the risk assessment with respect to Bank exposure to the construction and real estate sector. The Bank is mostly focused on extending credit for construction using the financial support method (closed assistance). Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment, and for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc. The Bank assessment is that these operations have no material impact on the Bank's overall credit risk. The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank remained relatively low at 15.2% (compared to 15.4% in the first quarter of 2023 and to 15.3% at end of 2022).

Risk level in the mortgage portfolio remained Low-Medium, after increasing in the fourth quarter of 2022 from Low, due to uncertainty with regard to potential future impact of higher interest rates and inflation on borrowers' repayment capacity, due to how material the mortgage portfolio is for the Bank, and even though at this time, the risk measures do not point to material deterioration or material change in the risk level. The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite. The Bank also takes measures to improve borrower repayment capacity and to reduce risk, including by loan re-financing and changes to loan composition. Should potential future risk in the residential mortgage portfolio in view of macro-economic conditions not materialize, the risk associated with the residential mortgage portfolio would return to Low.

Benefits to assist bank customers

On June 28, further to the statement issued by the Bank of Israel on June 20, 2023, the Bank offered a bundle of benefits to customers, as from July 2023 and for the next 12 months, in conformity with specified criteria. These benefits include a grant to mortgage borrowers, interest on credit balances in current accounts subject to criteria, reduced interest on debit balances in individual accounts, continued benefit of interest waived on part of the debit balance, up to the monthly repayment amount for mortgage customers, and offset of credit balances against debit balances in current accounts for eligible customers.

The overall risk level of market and interest risk remained Low-Medium. Interest risk remained Medium, after increasing in the fourth quarter of 2022, from Low-Medium to Medium, due to the higher interest rates, high uncertainty and impact for borrower and depositor behavior, in particular the trend of balance transition from current accounts to deposits and changes to mortgage performance mix towards options less sensitive to changes in interest rates.

Liquidity risk remained low-medium. Since early March 2022, the alert level at the Bank was raised to Yellow, due to continued market volatility and continued uncertainty with regard to macro-economic impact. In practice, no events nor indications were observed which would indicate realization of a liquidity event. In the second quarter of 2023, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (on consolidated basis) for the second quarter of 2023 was 128%. The net stable funding ratio (on consolidated basis) as of June 30, 2023 was 115% and there were no deviations from the risk appetite limitations.

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

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

In April, a few DDoS attacks were conducted against websites of most banks, including against the Bank's marketing website, as part of pro-Palestinian campaigns conducted annually around this time. Throughout this attack, the Bank app and transaction website operated normally, and this attack had no impact on the Bank's business activity.

The Bank 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 and in order to maintain and ensure availability of the Bank's network and systems. These actions are part of the debrief and lesson learning processes in place at the Bank, in line with increase in threats and the challenging requirements which the Bank must comply with. 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. Action taken by the Bank in recent years has retained the risk level at the Bank unchanged.

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

The Bank's reputational risk remained Low. The Bank closely monitors various benchmarks and indicators with regard to the Bank's reputation, and has yet to identify any material impact on its reputational risk, despite significant marketing efforts by competitors in the market and continued regulatory involvement in promoting competition, media coverage of interest rate increases and its various effects on the mortgage and deposit market, and impact of new regulatory measures on the business environment, as included in assessment of strategic business risk.

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

Strategic plan

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

Union Bank employee onboarding agreements

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

For more information see chapter "Significant developments in human capital and administration" in the Report of the Board of Directors and Management and Note 8 to the financial statements.

Signing of special collective bargaining agreement with Mizrahi Tefahot Employee Union

On June 26, 2023, the Bank and Mizrahi Tefahot Employee Union signed a special collective bargaining agreement for 2022-2026. This agreement includes agreements on additional pay and bonuses, as well as agreements designed to enhance the Bank's managerial flexibility and to promote excellence, in consideration of current challenges, including changes in the labor market, innovation in the banking domain and to support achievement of the Bank's strategic targets.

Concurrently with signing of this agreement, the Bank and the employee union signed an agreement to institute a voluntary retirement program, effective through December 31, 2027. Terms and conditions of this voluntary retirement program are essentially similar to those of the retirement program concluded on December 31, 2021.

For more information see chapter "Significant developments in human capital and administration" in the Report of the Board of Directors and Management and Note 8 to the financial statements.

Macro-economic developments

In the second quarter of 2023, interest rates in Israel continued to increase. The inflation rate was slightly more moderate, but remained above the Bank of Israel target range. Some indicators point to slightly more moderate economic activity in Israel and world-wide. The high interest rate and inflation environment results in higher financing cost for the business segment, and in higher monthly repayments by mortgage borrowers, while free income of households is eroded, and in concern about impact to demand in the economy which would result in higher unemployment and in recession in the economy.

In the second quarter, risk associated with financial institutions was more moderate, following instability in the global and local economic environment in the first quarter of 2023, which resulted, inter alia, in collapse of multiple banks in Europe and in the USA. In the current quarter, there was no further deterioration in the banking sector and no need for bailing out any further banks in difficulties around the world. Bank exposure to financial institutions in the USA is low, primarily with respect to derivatives. This exposure is mostly to major US Banks rated A- or higher, mostly Global Systemically Important Banks (G-SIBs), which are subject to strict regulatory requirements, including taking part in stress testing and increased capital requirements. All of these banks have a stable credit profile and diverse funding sources. They operate throughout the USA and globally, providing a wide range of retail, commercial and corporate banking services.

Overview of weighted risk assets (OV1)

	Risk weighted assets		Minimum capital requirements[1]
	As of June 30, 2023	**As of March 31, 2023**	**As of June 30, 2023**
Credit risk (standard approach)[2]	232,594	228,794	29,074
Counter-party credit risk (standard approach)	2,728	2,569	341
Credit risk value adjustment (CVA)[3]	1,391	1,379	174
Settlement risk	0	0	-
Amounts lower than discount threshold (subject to 250% risk weighting)	5,567	5,129	696
Total credit risk	**242,280**	**237,871**	**30,285**
Market risk (standard approach)	1,710	1,387	214
Operational Risk[4]	18,919	17,616	2,365
Total	**262,909**	**256,874**	**32,864**

(1) Capital requirement in conformity with required overall minimum capital ratio of 12.5%.

(2) Credit risk excludes counter-party credit risk, credit risk value adjustment, settlement risk, securitization exposures and amounts lower than the deduction thresholds.

(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(4) Capital allocation with respect to operational risk was calculated using the standard approach.

The change in risk assets in the second quarter of 2023 was primarily due to growth in business lending and to growth in the residential mortgage portfolio.

Capital and leverage

Composition of supervisory capital

		As of June 30		As of December 31
		2023	2022	2022
				NIS in millions
Tier I equity: Instruments and retained earnings				
1	Ordinary share capital issued by the banking corporation and ordinary share premium for shares included in Tier I equity	3,632	3,580	3,618
2	Retained earnings, including dividends proposed or announced after the balance sheet date	22,705	19,080	20,676
3	Cumulative other comprehensive income and retained earnings disclosed	(515)	(473)	(497)
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	562	527	543
6	**Tier I equity before regulatory adjustments and deductions**	**26,384**	**22,714**	**24,340**
Tier I equity: Supervisory adjustments and deductions				
8	Goodwill, net of any deferred tax liabilities	87	87	87
9	Other intangible assets, excluding mortgage service rights, net of deferred tax liabilities	50	70	60
11	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	3	(7)	-
14	Un-realized gains and losses from changes to fair value of liabilities arising from changes to the banking corporation's own credit risk. Furthermore, with regard to liabilities with respect to derivative instruments, all accounting value adjustments (DVA) arising from the bank's own credit risk should be deducted	6	1	6
26	Supervisory adjustments and other deductions stipulated by the Supervisor of Banks	(670)	(1,004)	(885)
28	**Total supervisory adjustments and Tier I deductions**	**(524)**	**(853)**	**(732)**
29	**Tier I shareholders' equity**	**26,908**	**23,567**	**25,072**
44	**Additional Tier I capital**	**-**	**-**	**-**
45	**Tier I capital**	**26,908**	**23,567**	**25,072**
Tier II capital: Instruments and provisions				
46	Instruments issued by the banking corporation (not included in Tier I capital) and premium for such instruments	2,220	2,205	2,150
48	Tier II capital instruments issued by subsidiaries of the banking corporation to third-party investors	3,371	3,598	3,287
49	Of which: Tier II capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, gradually deducted from Tier II capital	-	-	-
50	Group provisions for credit losses by effect of related tax	2,891	2,185	2,578
51	**Tier II capital before deductions**	**8,482**	**7,988**	**8,015**
Tier II capital: Deductions				
57	**Total deductions from Tier II capital**	-	-	-
58	**Tier II capital**	8,482	7,988	8,015
59	**Total capital**	35,390	31,555	33,087
60	**Total risk weighted assets**	262,909	235,783	252,251
Capital ratios and capital preservation cushions				
61	Tier I shareholders' equity	10.23%	10.00%	9.94%
62	Tier I capital	10.23%	10.00%	9.94%
63	Total capital	13.46%	13.38%	13.12%
Minimum requirements stipulated by the Supervisor of Banks				
69	Minimum Tier I equity ratio required by Supervisor of Banks	9.60%	9.62%	9.60%
70	Minimum Tier I equity ratio required by Supervisor of Banks	9.60%	9.62%	9.60%
71	Minimum capital ratio required by the Supervisor of Banks	12.50%	12.50%	12.50%

		As of June 30		As of December 31
		2023	2022	2022
				NIS in millions
Amounts lower than the deduction threshold (before risk weighting)				
72	Investments in capital of financial corporations (other than banking corporations and subsidiaries thereof), up to 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold	56	132	3
73	Investments in Tier I equity of financial corporations (other than banking corporations and subsidiaries thereof), over 10% of ordinary share capital issued by the financial corporation, which is below the amortization threshold	3	4	3
75	Deferred tax assets created due to temporary differences, which is below the amortization threshold	2,224	1,827	2,007
Cap for inclusion of provisions in Tier II				
76	Provision qualifying for inclusion in Tier II with regard to exposures under the standard approach, before application of the cap	3,048	1,371	2,785
77	Cap for inclusion of provision in Tier II with regard to exposures under the standard approach	3,029	2,743	2,930
Capital instruments not qualifying as supervisory capital subject to transition provisions				
84	Current cap for instruments included in Tier II capital subject to transition provisions (pursuant to transition provisions of Directive 299)	-	1,195	-
85	Amount deducted from Tier II capital due to cap	36	36	36

Supervisory capital

Supervisory capital is composed of two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.
Tier I capital includes equity attributable to equity holders of the Bank and the interest of external shareholders in equity of subsidiaries (excess capital at subsidiaries is not taken into account).
Tier I capital includes supervisory adjustments and deductions from capital – goodwill, investments in capital components of financial institutions, cumulative other comprehensive income with regard to cash flow hedges for items not presented at fair value on the balance sheet adjustments with respect to liabilities for derivative instruments, due to change in the Bank's credit risk (DVA) and other supervisory adjustments and deductions.
Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of June 30, 2023, the Bank had no capital instruments included in additional Tier I capital.
Tier II capital consists of a group provision for credit losses and equity instruments which fulfill the specified requirements.

Restrictions on capital structure:
- Tier II capital shall not exceed 100% of Tier I capital after required deductions from such capital.
- Capital instruments qualified for inclusion in Tier II capital shall not exceed 50% of Tier I capital after required deductions from such capital.

Bank approach to capital adequacy assessment

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

Pillar 1 – minimum capital – minimum capital allocation requirements with respect to credit risk, market risk and operational risk calculated by standard models.

Pillar 2 – Supervision and control process over capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the Bank, as well as the Supervisory Review and Evaluation Process (SREP).

Pillar 3 – "market discipline" – reporting and disclosure requirements to supervisory entity and to the public.

Minimum capital ratio requirement

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

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

For more information see Note 9 to the financial statements.

Leverage ratio

The Bank applies the rules in Proper Conduct of Banking Business Directive 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposures. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives, to financing transactions for securities and off-balance sheet items.

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

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

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

The Bank's leverage ratio as of June 30, 2023 is 5.73%, compared to 5.53% as of March 31, 2023.

Below is information about the Bank's leverage ratio (NIS in millions):

Comparison of assets on balance sheet and exposure measurement for leverage ratio	As of June 30, 2023	As of June 30, 2022	As of December 31, 2022
Total assets according to consolidated financial statements	432,722	416,969	428,292
Adjustments with respect to financial derivatives	3,489	401	2,612
Adjustments with respect to off-balance sheet items[(1)]	30,193	30,611	29,358
Other adjustments	3,057	2,388	2,748
Exposure for leverage ratio	**469,461**	**450,369**	**463,010**

(1)Conversion of off-balance sheet exposures to equivalent credit amounts, in conformity with Basel rules for capital adequacy measurement.

Disclosure with regard to leverage ratio (NIS in millions)

	As of June 30, 2023	As of June 30, 2022	As of December 31, 2022
Composition of exposures and leverage ratio (NIS in millions)			
On-balance sheet exposures			
Assets on balance sheet	427,409	408,117	423,160
Amounts with respect to assets deducted to determine Tier I capital	(137)	(157)	(147)
Total on-balance sheet exposures	**427,272**	**407,960**	**423,013**
Exposures with respect to derivatives			
Subrogation cost for all transactions with respect to derivatives	2,760	6,575	2,972
Additional amounts with respect to future potential exposure for all transactions with respect to derivatives	6,516	2,711	5,113
Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives	–	–	–
Deductions of receivable assets with respect to variable cash collateral provided in derivatives transactions	–	(2,163)	–
Exempt central counter-party leg of commercial exposures disposed by the customer	–	–	–
Adjusted effective par amount of credit derivatives written	–	280	281
Adjusted effective par offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	**9,276**	**7,403**	**8,366**
Exposure with respect to securities financing transactions			
Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale	2,720	4,395	2,273
Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions	–	–	–
Credit risk exposure for central counter-party with respect to securities financing assets	–	–	–
Exposures with respect to transactions as agent	–	–	–
Total exposure with respect to securities financing transactions	**2,720**	**4,395**	**2,273**
Other off-balance sheet exposures			
Off-balance sheet exposure in par value, gross	103,285	107,584	98,930
Adjustments with respect to conversion to credit equivalent amounts	(73,092)	(76,973)	(69,572)
Off-balance sheet items	30,193	30,611	29,358
Capital and total exposure			
Tier I capital	26,908	23,567	25,072
Total exposure	469,461	450,369	463,010
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.73%	5.23%	5.42%
Minimum leverage ratio required by the Supervisor of Banks	4.50%	4.50%	4.50%

Credit risk

This chapter discusses credit risk, in conformity with disclosure requirements of the Basel Committee and the FSB; the chapter structure and topic order (adjusted for the nature of Bank operations) are also in conformity with these requirements.

The chapter "Counter party credit risk" below includes qualitative and quantitative disclosures about the capital requirement with respect to this risk and adjustment to capital requirements with respect to credit risk (CVA).

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

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

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

Credit quality of credit exposures (CR1)

				June 30, 2023
	Gross balances[1]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	2,899	394,760	3,240	394,419
Bonds	–	12,648	–	12,648
Off-balance sheet exposures[2]	61	103,384	187	103,258
Total	**2,960**	**510,792**	**3,427**	**510,325**

				June 30, 2022
	Gross balances[1]			
	Non-accruing or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debts, except for bonds	2,673	374,352	2,638	363,214
Bonds	–	19,444	–	19,444
Off-balance sheet exposures[2]	6	107,359	216	107,149
Total	**2,684**	**501,155**	**2,854**	**485,554**

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

(1) Gross balances in conformity with reported carrying amounts on the financial statements for on- and off-balance sheet items, creating exposure to credit risk pursuant to Proper Conduct of Banking Business Directive 203.

(2) Off-balance sheet exposures are before credit conversion factors (CCF)

Credit risk mitigation methods (CR3)

	As of June 30, 2023								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	338,898	55,521	15,809	27,789	5,072	27,732	10,737	–	–
Bonds	12,648	–	–	–	–	–	–	–	–
Total	**351,546**	**55,521**	**15,809**	**27,789**	**5,072**	**27,732**	**10,737**	**–**	**–**
Of which: Non-accruing or in arrears 90 days or longer	2,069	614	186	299	71	314	115	–	–

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

	As of December 31, 2022								
	Non-secured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance[1]	Total on-balance sheet balance[1]	Of which: Secured amount[2]	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debts, except for bonds	345,390	48,390	16,227	33,552	8,811	14,838	7,416	–	–
Bonds	11,548	–	–	–	–	–	–	–	–
Total	**356,938**	**48,390**	**16,227**	**33,552**	**8,811**	**14,838**	**7,416**	**–**	**–**
Of which: Non-accruing or in arrears 90 days or longer	1,759	738	199	311	64	427	134	–	–

(1) Balance sheet balance in conformity with reported carrying amounts on the financial statements, after provisions for credit losses.
(2) Balance sheet balance of part of the debt amount secured by collateral, guarantee or credit derivative, after accounting for safety factors.

Credit risk using the standard approach

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

Asset types / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
										As of June 30, 2023
Sovereigns, central banks thereof and national monetary authority	90,199	91	–	–	–	–	214	–	–	90,504
Public sector entities (PSE) other than central Government	224	1,851	–	25	–	–	4	–	–	2,104
Banks (including multilateral development banks)	–	4,096	–	335	–	–	129	–	–	4,560
Securities companies	–	900	–	–	–	–	–	–	–	900
Corporations	188	11,126	–	6,091	–	–	71,321	2,376	8	91,110
Retail exposures to individuals	–	–	–	–	–	27,904	–	–	–	27,904
Loans to small businesses	–	–	–	–	–	13,034	4	–	–	13,038
Secured by residential property	–	–	56,301	46,296	56,255	26,803	9,670	–	–	195,325
Secured by commercial property	–	–	–	–	–	–	5,475	–	–	5,475
Loans in arrears	–	–	–	–	–	–	986	1,909	–	2,895
Other assets	2,095	–	–	–	–	–	3,902	117	9	6,123
Of which: with respect to shares	–	–	–	–	–	–	143	162	(14)	291
Total	**92,706**	**18,064**	**56,301**	**52,747**	**56,255**	**67,741**	**91,705**	**4,402**	**17**	**439,938**
										As of June 30, 2022
Sovereigns, central banks thereof and national monetary authority	95,227	106	–	3	–	–	15	–	–	95,351
Public sector entities (PSE) other than central Government	163	2,307	–	42	–	–	3	–	–	2,515
Banks (including multilateral development banks)	–	5,456	–	852	–	–	177	–	–	6,485
Securities companies	–	842	–	–	–	–	–	–	–	842
Corporations	–	12,926	–	342	–	–	62,999	2,804	–	79,071
Retail exposures to individuals	–	–	–	–	–	26,565	–	–	–	26,565
Loans to small businesses	–	–	–	–	–	12,938	2	–	–	12,940
Secured by residential property	–	–	59,882	45,810	48,717	26,678	1,836	–	–	182,923
Secured by commercial property	–	–	–	–	–	–	5,590	–	–	5,590
Loans in arrears	–	–	–	–	–	–	1,761	1,941	–	3,702
Other assets	2,373	–	–	–	–	–	3,858	399	4	6,634
Of which: with respect to shares	–	–	–	–	–	–	515	194	–	709
Total	**97,763**	**21,637**	**59,882**	**47,049**	**48,717**	**66,181**	**76,241**	**5,144**	**4**	**422,618**
										As of December 31, 2022
Sovereigns, central banks thereof and national monetary authority	98,067	105	–	–	–	–	8	–	–	98,180
Public sector entities (PSE) other than central Government	148	1,683	–	48	–	–	5	–	–	1,884
Banks (including multilateral development banks)	–	2,987	–	1,136	–	–	102	–	–	4,225
Securities companies	–	807	–	–	–	–	–	–	–	807
Corporations	–	10,494	–	3,544	–	–	68,248	3,280	206	85,772
Retail exposures to individuals	–	–	–	–	–	27,461	–	–	–	27,461
Loans to small businesses	–	–	–	–	–	13,045	4	–	–	13,049
Secured by residential property	–	–	57,480	44,752	51,623	25,644	9,897	–	–	189,396
Secured by commercial property	–	–	–	–	–	–	5,136	–	–	5,136
Loans in arrears	–	–	–	–	–	–	1,003	2,347	–	3,350
Other assets	3,117	–	–	–	–	–	3,489	425	4	7,035
Of which: with respect to shares	–	–	–	–	–	–	259	190	–	449
Total	**101,332**	**16,076**	**57,480**	**49,480**	**51,623**	**66,150**	**87,892**	**6,052**	**210**	**436,295**

(1) Balances in this disclosure include on- and off-balance sheet debt balances that reflect credit risk, excluding deferred tax amounts and investments in financial institutions below the discount thresholds (subject to 250% risk weighting), exposures with respect to counter-party credit risk and securitization exposures.

(2) The balances reflect the supervisory exposure amounts, net of provisions and write-offs, after credit conversion factors and after credit risk mitigation methods.

Counter-party credit risk

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

	As of June 30, 2023				
	Subrogation cost	Future potential exposure	Alpha used to calculate regulatory EAD	Exposure after deduction of collateral	Risk assets
Standard approach for counter-party risk (SA-CCR) (for derivatives)	1,576	4,558	1.4	8,588	2,636
Comprehensive approach to credit risk mitigation (for securities financing transactions)	–	–		111	78
Total	**1,576**	**4,558**		**8,699**	**2,714**

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

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

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

	As of June 30, 2023		As of June 30, 2022		As of December 31, 2022	
	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets
Total – portfolios for which CVA is calculated using the standard approach	8,639	1,391	4,760	1,071	7,348	1,230

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

	As of June 30, 2023			
Supervisory portfolio / risk weighting	**0%**	**20%**	**100%**	**Total credit exposure**
Sovereigns	15	–	–	15
Public sector entities (PSE) other than central Government	–	36	–	36
Banks (including multilateral development banks)	–	3,341	–	3,341
Securities companies	–	4,105	–	4,105
Corporations	–	–	1,128	1,133
Supervisory retail portfolios	–	–	10	10
Other assets	–	–	–	–
Total	15	7,482	1,138	8,640

	As of June 30, 2022			
Supervisory portfolio / risk weighting	**0%**	**20%**	**100%**	**Total credit exposure**
Sovereigns	4	–	–	4
Public sector entities (PSE) other than central Government	–	5	–	5
Banks (including multilateral development banks)	–	593	–	593
Securities companies	–	3,284	–	3,284
Corporations	–	291	818	1,112
Supervisory retail portfolios	–	–	4	4
Other assets	–	–	–	–
Total	4	4,173	822	5,002

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

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

	As of June 30, 2023					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
Cash – local currency	–	664	–	370	2,209	–
Cash – other currency	–	1,713	–	1,140	5	–
Domestic sovereign debt	–	392	–	–	120	–
Other sovereign debt	–	338	–	–	4	–
Debt of Government agency	–	–	–	–	–	–
Corporate bonds	–	81	–	–	43	–
Shares	–	750	–	–	224	–
Other collateral	–	–	–	–	–	–
Total	**–**	3,938	**–**	1,510	2,605	**–**

	As of June 30, 2022					
	Collateral used in derivatives transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of collateral deposited		Fair value of collateral received	Fair value of collateral deposited
	Disconnected	Not disconnected	Disconnected	Not disconnected		
Cash – local currency	–	665	–	–	1,051	–
Cash – other currency	–	1,007	–	–	3	–
Domestic sovereign debt	–	15	–	–	12	–
Other sovereign debt	–	–	–	–	–	–
Debt of Government agency	–	–	–	–	–	–
Corporate bonds	–	6	–	–	8	–
Shares	–	743	–	–	369	–
Other collateral	–	–	–	–	–	–
Total	**–**	2,436	**–**	**–**	1,443	**–**

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

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

Market risk

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities). The Bank has no exposure to commodities and its exposure to shares is not material, so that its primary exposure to market risk is due to basis risk – the risk existing when assets and liabilities of the Bank are denominated in different currencies or in different linkage segments, and to interest rate risk, which is the risk to Bank profit and to Bank economic capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes to interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

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

Market risk using the standard approach

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

	Risk assets as of:		
	June 30, 2023	June 30, 2022	December 31, 2022
Direct products			
Interest rate risk (general and specific)	1,314	1,546	1,090
Position risk in shares (general and specific)	35	44	44
Foreign currency risk	273	231	125
Commodities risk	-	-	-
Options	-	-	-
Delta Plus approach	88	22	42
Securitization	-	-	-
Total	**1,710**	**1,843**	**1,301**

As noted above, exposure in the trading portfolio is low, and mostly due to interest risk. Risk assets with respect to interest risk were impacted by positions in derivatives which were not offset according to the standard measurement approach.

Liquidity risk

Liquidity risk – risk due to uncertainty about resource availability and the capacity to realize assets in a specified time at a reasonable price.

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

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

Liquidity coverage ratio (LIQ1)

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

	For the three months ended June 30, 2023	
	Total unweighted value[(2)] (Average)	**Total weighted value[(3)] (Average)**
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**80,940**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	177,400	10,659
Stable deposits	41,835	2,092
Less stable deposits	56,518	6,196
Deposits for term longer than 30 days	79,047	2,371
Non-secured wholesale financing, of which:	84,104	54,703
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	3,683	921
Deposits other than for operational needs (all counter parties)	80,322	53,683
Non-secured debts	100	100
Secured wholesale financing	–	204
Other liquidity requirements, of which:	153,089	64,681
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	56,124	56,124
Credit lines and liquidity	56,104	5,002
Other contractual financing obligations	–	–
Other contingent financing obligations	40,904	3,560
Total outgoing cash flows	**414,593**	**130,248**
Incoming cash flows		
Secured loans	1,028	241
Incoming cash flows from exposures repaid regularly	16,831	12,137
Other incoming cash flows	57,148	54,656
Total incoming cash flows	**75,007**	**67,034**
		Total adjusted value[(4)]
Total high quality liquid assets (HQLA)		**80,940**
Total outgoing cash flows, net		**63,214**
Liquidity coverage ratio (%)		**128%**

(1) Information presented in terms of simple average of daily observations during the reported quarter. The number of observations used in calculating the averages in the second quarter of 2023 is 74.

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

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

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

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

	For the three months ended June 30, 2022	
	Total unweighted value[2] (Average)	Total weighted value[3] (Average)
Total high quality liquid assets		
Total high quality liquid assets (HQLA)		**84,379**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	160,837	10,821
Stable deposits	44,337	2,217
Less stable deposits	64,786	7,052
Deposits for term longer than 30 days	51,713	1,551
Non-secured wholesale financing, of which:	99,126	63,885
Deposits for operational needs (all counter parties) and deposits in chains of co-operative banking corporations	4,200	1,050
Deposits other than for operational needs (all counter parties)	93,753	61,662
Non-secured debts	1,173	1,173
Secured wholesale financing	-	297
Other liquidity requirements, of which:	147,246	55,748
Outgoing cash flows with respect to exposure to derivatives and other collateral requirements	47,500	47,500
Credit lines and liquidity	60,272	4,945
Other contingent financing obligations	-	-
Total outgoing cash flows	**407,209**	**130,750**
Incoming cash flows		
Secured loans	2,566	399
Incoming cash flows from exposures repaid regularly	17,743	12,843
Other incoming cash flows	49,633	47,078
Total incoming cash flows	**69,942**	**60,319**
		Total adjusted value[4]
Total high quality liquid assets (HQLA)		**84,379**
Total outgoing cash flows, net		**70,431**
Liquidity coverage ratio (%)		**120%**

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

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

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

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

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

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

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

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

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

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

Key factors that impact results of the liquidity coverage ratio

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

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

Composition of high quality liquid assets (HQLA)

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

	June 30		Average for the second quarter	
	2023	**2022**	**2023**	**2022**
Level 1 assets	82,771	81,267	80,845	84,349
Level 2a assets	64	30	64	30
Level 2b assets	31	-	31	-
Total HQLA	**82,866**	**81,297**	**80,940**	**84,379**

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

Composition of pledged and un-pledged available assets:

	As of June 30, 2023		
	Total balance on balance sheet	**Of which: Pledged**	**Of which: Non-pledged**
Cash and deposits with central banks	81,216	4,835	76,381
Bonds of the Government of Israel	15,297	267	15,030
Bonds of others in Israel	1,907	-	1,907
Bonds of overseas governments	1,571	165	1,406
Bonds of others overseas	469	-	469
Loans to the public, net	316,925	3,747	313,178
Total	417,385	9,014	408,371

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

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

Developments in liquidity coverage ratio

In the second quarter of 2023, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (on consolidated basis) for the second quarter of 2023 was 128%, slightly higher than in the first quarter of 2023 (126%). There were no recorded deviations from ratio restrictions during this quarter. The increase in ratio in this quarter is due to decrease in outgoing cash flow due to deposits raised for a longer term.

Net stable funding ratio (LIQ2)

Net stable funding ratio

On June 21, 2021, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 222 regarding "Net stable funding ratio (NSFR)", which stipulates calculation of the ratio as specified in the Basel III Reform of the Basel Committee (BCBS).
In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The ratio limits over-reliance by banking corporations on short-term wholesale funding. The net stable funding ratio consists of two components: available stable funding items and required stable funding items.
As required in the directive, the net stable funding ratio should be 100% or higher on regular basis.

In conformity with the directive, "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

Below is information about the net stable funding ratio(1) (NIS in millions) as of June 30, 2023:

	A	B	C	D	E
	Non-weighted value by term to maturity				Weighted value
Available stable funding items (ASF)	No maturity (1)	Up to 6 Months	From 6 months Up to 1 year	12 months or longer	
Capital:	30,528	41	590	4,558	35,381
Supervisory capital	30,528			1,485	32,013
Other capital instruments		41	590	3,073	3,368
Retail deposits from individuals and from small businesses		134,230	23,079	8,252	152,287
Stable deposits		45,424			48,150
Less stable deposits		88,807	19,362	6,786	104,138
Wholesale financing		159,558	26,741	42,708	89,837
Deposits for operational needs		3,856			1,928
Other wholesale financing		155,702	26,741	42,708	87,908
Liabilities with matching assets which are inter-dependent					
Other liabilities:	179	5,747	3,842	2,819	4,740
Liabilities with respect to derivative instruments for net stable funding ratio				4,833	
All other liabilities and capital not included in the above categories	179	5,747	3,842	2,819	4,740
Total available stable funding items (ASF)					282,245
Required stable funding items (RSF)					
Total high-quality liquid assets by net stable funding ratio (HQLA)					697
Deposits held at other financial institutions for operational purposes					
Loans and securities in good standing:		82,350	22,831	225,078	229,467
Loans to financial institutions in good standing, secured by level 1 high-quality liquid assets					
Loans to financial institutions in good standing, secured by high-quality liquid assets other than in level 1, and loans to financial institutions in good standing which are not secured		10,222	6,085	7,813	11,923
Loans to wholesale customers, other than financial institutions, which are in good standing, loans to retail customers and to small businesses and loans to sovereigns, to central banks and to public sector entities		62,899	6,955	29,005	58,980
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203		20	14	57	54
Residential mortgages secured by mortgage in good standing, of which:		9,212	9,790	187,868	158,222
Of which: With risk weighting of 35% or lower, pursuant to Proper Conduct of Banking Business Directive 203		3,359	3,524	54,835	39,084
Securities not in default which do not qualify as high-quality liquid assets, including shares traded on the stock exchange		17		392	342
Assets with corresponding liabilities which are inter-dependent					
Other assets:	2,206	1,053	1,506	5,931	11,691
Physically traded commodities, including gold					
Assets deposited as primary collateral for derivative contracts and provided to default funds of central counter parties (CCPs)				893	893
Assets with respect to derivative instruments for net stable funding ratio				5,831	50
Liabilities with respect to derivative instruments for net stable funding ratio, before deduction of variable collateral deposited				53	53
All other asset categories not included in the above categories	2,206	1,053	1,506	5,931	10,695
Off-balance sheet items				95,562	4,262
Total required stable funding (RSF)					246,116
Net stable funding ratio (%)					115%

Key factors that impact results of the net stable funding ratio

Net stable funding ratio on consolidated basis as of June 30, 2023 was 115%, compared to 113% on March 31, 2023. This slight increase in ratio is due to an increase, quarter over quarter, in available total net stable financing (primarily under deposits from individuals and small businesses and retail financing: medium and large businesses and institutional investors), which was higher than the quarterly increase in required total net stable financing (primarily under loans).

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

Glossary and index of terms included on the risks report

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

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

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

Terms with regard to banking and finance

B	**Bonds** – Securities which are issuer obligations to pay to bond holders the issued principal and interest upon set dates or upon fulfillment of certain conditions.
D	**Derivative instrument** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Non-accruing debt – Debt reviewed on individual basis where it is expected that the banking corporation would not be able to collect all amounts due and principal and interest payments in conformity with contractual terms and conditions of the debt agreement. Debt reviewed on individual basis is categorized as non-accruing in any case where principal or interest is in arrears over 90 days straight, unless the debt is well secured and is in collection proceedings. Non-accruing debt also includes debt with modified terms and conditions due to re-structuring of problematic debt.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, un-amortized premium or discount, net deferred commissions or net deferred costs charged to the debt balance and not yet amortized, net of any debt amount subject to accounting write-off. Financial instrument – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.

Terms with regard to regulatory directives

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

Terms with regard to banking and finance

A	**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.
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N	**Derivative instrument** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.

Terms with regard to regulatory directives

ABC	**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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מזרחי טפחות

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