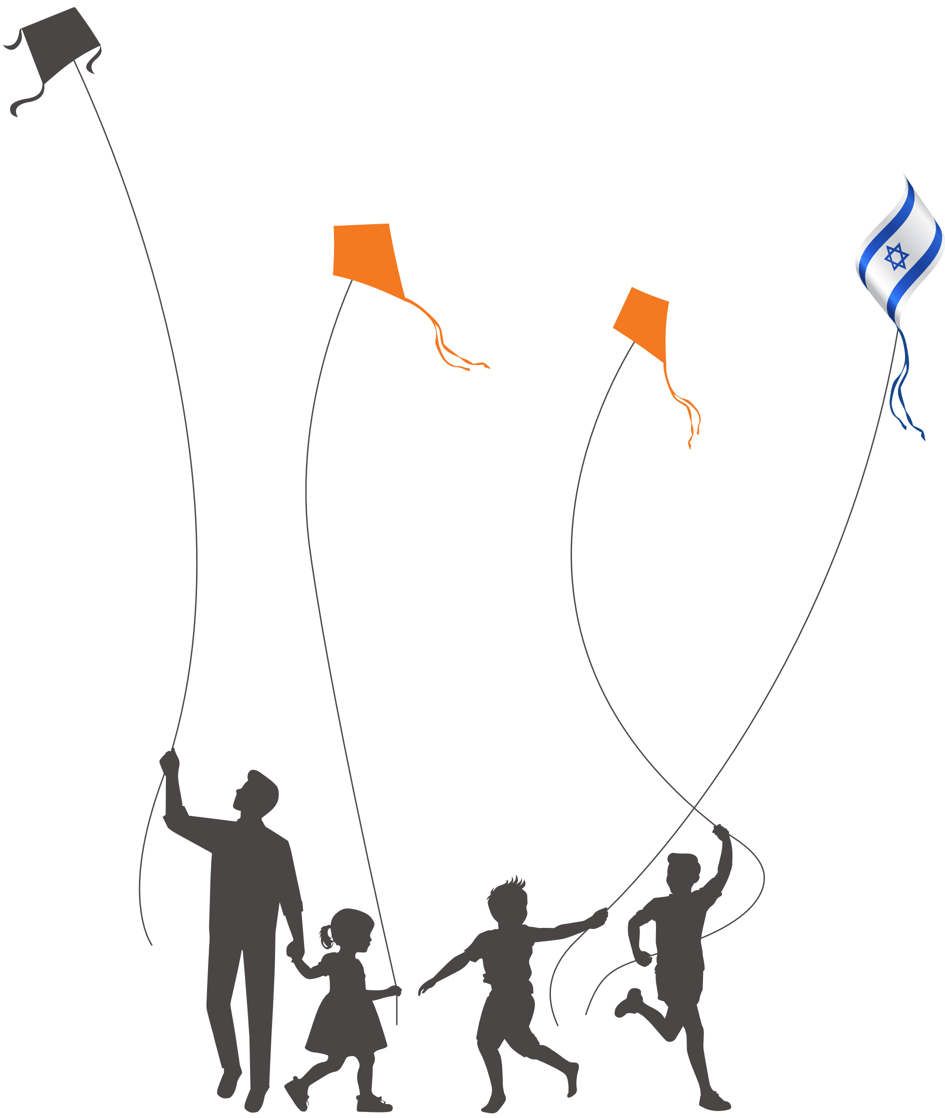
ANNUAL REPORT 2023

מזרחי טפחות
MIZRAHI TEFAHOT



People first and foremost

Bank Mizrahi Tefahot

Annual Report

2023

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

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

From the Chairman of the Board of Directors

On behalf of the Bank Board of Directors, I hereby present you with Mizrahi Tefahot's 2023 financial statements.

The past year was one of the more complicated and tumultuous Israel has ever known. After nine months of intense internal dispute about judicial reform, which consistently and worryingly eroded our social, economic and defensive strength, came the murderous brutal attack on October 7, which overturned the national agenda in one fell swoop. The military campaign imposed on us since that day still entails a high price in body and mind, in matter and spirit. We all hope that we would soon be successful in bringing back home all of the hostages, and in eliminating the threats facing us from South and North.

Along with action taken by Mizrahi Tefahot to ensure service continuity to customers across the country, the Bank immediately took part in the national effort with charitable donations, banking benefits and relief measures, far more extensive than the baseline stipulated by the Bank of Israel, in order to help all those affected by the situation, whether directly or indirectly. These benefits were across a wide range of banking activity, including for mortgage customers, current account holders and business customers.

Concurrently, dozens of Bank employees took part in many volunteer activities to support and back those evacuated from their homes, families of those serving on military reserve and the wounded soldiers recovering in hospitals.

The continuous move by the Bank of Israel to raise interest rates, from the second quarter of 2022 to May 2023, when the interest rate reached a record high of 4.75%, after many years of zero real interest, significantly increased financing costs and posed a significant challenge to households and to the business sector. One of the areas significantly impacted by this is the residential housing sector, where for many months we have seen a dramatic decline in number of transactions. In the past year, a total of 28 thousand new apartments were sold – a 30.0% decrease compared to 2022. The good news is that after years of continuously higher housing prices, the trend has been reversed with a small decrease, by 1.4%, in prices of owned apartments in 2023.

Consequently, the mortgage market in 2023 also saw a sharp decline, by 39%, in originations: In this year, the banking system in Israel originated residential mortgages amounting to NIS 72 billion, compared to NIS 118 billion in 2022.

As an undisputed leader in this market for many years, with a market share of 36% of the mortgage portfolio in Israel at end of 2023, the Bank took proactive consumer-oriented steps during the year with its current mortgage customers, so as to ensure that they are able to cope with the sharply higher loan repayments due to the higher interest rate in the market. For those in need of assistance, the Bank provided a range of customized solutions to help them cope with their mortgage payments over time.

Along with maintaining its leadership position in mortgages, Mizrahi Tefahot continued to grow and to expand its lending and deposit operations with households and with the business sector. Concurrently, the Bank solidified its involvement in financing for national infrastructure transactions, leveraging the experience and expertise accumulated in recent years in this field.

Challenges in the current period and significant uncertainty in the market these days require paying special attention to the status of all customers – households and businesses alike. Mizrahi Tefahot, being a bank that adopted a human, personal service concept, has its bankers in close contact with Bank customers, providing them with a diverse toolbox in order to help them in optimally facing this challenging reality. The Bank shall continue its intensive activity designed for monitoring and early identification of difficulties and failures, so as to reduce risk to the Bank and to its customers, and to react to any development in a timely manner.

Given the complicated economic environment for banks in 2023, and in particular in the fourth quarter of this year with the outbreak of the Iron Swords War, the success of Mizrahi Tefahot in further growing its key balance sheet items, including loans to the public and deposits from the public, and in presenting record data for revenues and net profit, are an impressive, remarkable achievement.

On my behalf and on behalf of all Board members, I wish to thank our thousands of dedicated employees and to express my deepest appreciation of their significant contribution to the Bank's success. Mizrahi Tefahot is blessed with a professional, determined staff that is committed to achieving the Bank's goals and targets – and is undoubtedly the key factor in the Bank's prolonged success over many years.

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

Sincerely yours,

M. Vidman

Moshe Vidman

Chairman of the Board of Directors

Mizrahi Tefahot

Bank Mizrahi Tefahot

Report of the Board of Directors and Management

2023

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

Introduction

The Iron Swords War, which started after the surprise attack on October 7, has been on-going for over 5 months now and still at this stage, it is not possible to assess how it would develop, its end date and its implications for various areas in Israel in general – and for economic activity in particular.
Mizrahi Tefahot Group bows in respect to the families of those murdered and of IDF fallen soldiers in the war, praying for the safe return home of all those kidnapped, and sending wishes of speedy recovery to all wounded civilians and soldiers. Since the start of the war, the Bank has been part of the national endeavor: in direct support for impacted populations, primarily in the Gaza border area and near the Northern border – including through adoption of Sderot and Kfar Aza, and by taking initiative on banking relief, designed to support and to help Bank customers, who were directly or indirectly affected by these events, so as to allow them to overcome the challenging period.
For more information about steps taken by the Bank, implications of these events on the financial statements and on risk management, see below chapters "Significant developments in management of business operations", "General environment and impact of external factors on the Bank Group","Material developments in revenues, expenses and other comprehensive income" and "Risks overview".
The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on March 11, 2024, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2023. This report is submitted to the General Meeting of Shareholders.
The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives and guidelines of the Supervisor of Banks.
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States (see also Note 1 to these financial statements).
The Report of the Board of Directors and Management and the 2023 financial statements are prepared in the layout stipulated by the Supervisor of Banks. After the Notes to the financial statements you will find a chapter on corporate governance, audit, more information about the Bank and its management, as well as appendixes to the annual report.
Further additional information to the financial statements is available on the Bank website:
www.mizrahi-tefahot.co.il About the Bank >> Investor Relations >> Financial Information
This additional information of which:

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

The Bank website also provides additional supervisory information, including details of equity instruments issued by the Bank, as well as an XBRL-formatted file of the financial statements.
In conformity with the Equal Rights for Persons with Disabilities Regulations (Service accessibility adaptations), 2013, the website also provides accessible reports.

Forward-looking information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: "the Law").
Actual Bank results may materially differ from those included in the forward-looking information, due to many factors including, inter alia, changes to capital markets in Israel and overseas, macro-economic changes, geo-political changes, changes to legislation and regulation and other changes not within the Bank's control, which may result in assessments not materializing and/or in changes to business plans.
Forward-looking information typically includes words or expressions such as: "we assume", "expected", "forecasted", "estimate", "intend", "plan", "may change" and similar expressions, as well as nouns such as: "plan", "objectives", "desire", "should", "may", "will be". Such forward-looking expressions involve risk and uncertainty, as they are based on current Bank assessments with regard to future events, which include the following: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; expectation of changes and developments in the currency markets and the capital markets, forecasts related to other factors affecting the exposure to financial risks, forecasts of changes in the financial stability of borrowers, the public’s preferences, changes to legislation and supervisory regulations, the behavior of competitors, the Bank’s image, technological developments and human resources developments.
The information presented below relies, inter alia, on publications from the Central Bureau of Statistics, Ministry of Finance, Bank of Israel and others who publish data and estimates with regard to capital markets in Israel and overseas, and on forecasts and future estimates on various matters, as noted above, and any anticipated events or developments may fail to materialize, in whole or in part.

Overview, objectives and strategy

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

Condensed financial information and key performance indicators for the Bank Group

	For the year ended December 31				
	2023	2022	2021	2020	2019
	NIS in millions				
Statement of profit and loss – key items					
Interest revenues, net	11,975	10,240	7,685	5,820	5,340
Non-interest financing revenues	511	754	401	221	357
Commissions and other revenues	2,294	2,674	2,234	1,892	1,609
Total revenues	**14,780**	**13,668**	**10,320**	**7,933**	**7,306**
Expenses with respect to credit losses	1,463	532	(278)	1,050	364
Operating and other expenses	5,569	6,173	5,568	4,279	3,988
Of which: Payroll and associated expenses	3,544	4,029	3,536	2,644	2,562
Pre-tax profit	7,748	6,963	5,030	2,604	2,954
Provision for taxes on profit	2,669	2,356	1,730	903	1,029
Net profit(1)	**4,910**	**4,472**	**3,188**	**1,610**	**1,842**

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	NIS in millions							
Statement of profit and loss – key items								
Interest revenues, net	2,689	2,959	3,181	3,146	2,952	2,691	2,453	2,144
Non-interest financing revenues	(167)	341	250	87	198	263	176	117
Commissions and other revenues	569	568	564	593	569	579	574	952
Total revenues	**3,091**	**3,868**	**3,995**	**3,826**	**3,719**	**3,533**	**3,203**	**3,213**
Expenses with respect to credit losses	295	694	247	227	191	155	107	79
Operating and other expenses	1,196	1,415	1,521	1,437	1,814	1,529	1,442	1,388
Of which: Payroll and associated expenses	702	902	1,009	931	1,194	1,002	924	909
Pre-tax profit	1,600	1,759	2,227	2,162	1,714	1,849	1,654	1,746
Provision for taxes on profit	519	624	779	747	580	635	572	569
Net profit(1)	**1,047**	**1,098**	**1,398**	**1,367**	**1,087**	**1,178**	**1,053**	**1,154**

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Net profit for the Group in 2023 amounted to NIS 4,910 million, compared to net profit of NIS 4,472 million in 2022 – an increase by 9.8%. Net profit in 2023 reflects return on equity of 19.1%, compared to 20.1% in 2022.

Group net profit in the fourth quarter of 2023 amounted to NIS 1,047 million, compared to NIS 1,087 million in the corresponding period last year – decrease by 3.7%. Net profit in the fourth quarter of 2023 reflects annualized return on equity of 15.5%, compared to 18.5% in the corresponding period last year.

The following major factors affected Group profit in 2023 compared to 2022:

- Financing revenues in 2023 increased by 13.6% over the corresponding period last year, primarily due to increase by 5.8% in loans to the public compared to December 31, 2022, and to increase in the Bank of Israel interest rate (as from April 2022) and in the US Federal Reserve interest rate (as from March 2022). Conversely, financing revenues were impacted by the more moderate increase in CPI, by 3.3% in 2023 compared to increase by 5.3% in the previous year.

For more information see "Analysis of development of financing revenues from current operations" below.

- Other revenues in 2022 include capital gain from sale of assets (recorded in the first quarter of 2022) amounting to NIS 371 million.

For more information see chapter "Significant Events in the Bank Group's Business" below.

- Expenses with respect to credit losses in 2023 amounted to NIS 1,463 million, compared to NIS 532 million in the corresponding period last year. The increase in provisions in 2023, and in particular in the third quarter of this year, is mostly due to group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date at the Bank. The increase in provision over the year was also due to growth in Bank's loan portfolio and to higher risk in the market, primarily due to the higher interest rates.

For more information see chapter "Policies and critical accounting estimates" below.

- Operating and other expenses decreased by 9.8%, primarily due to completion of the Union Bank merger into Bank Mizrahi Tefahot, which resulted in termination of some employees of the former Union Bank, closure of some Union Bank branches and reduced IT expenses, and to the payroll agreement signed with the Employees' Association.

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

Profit data for 2019-2023 shows:

- Average annual growth rate in total revenues of 19.3%. The increase in revenues was due to strong growth over the years and to the Union Bank transaction.
- The growth rate in expenses was slower than for revenues, at 8.7%, due, *inter alia*, to the merger of Union Bank into the Bank.

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

	As of December 31				
	2023	2022	2021	2020	2019
					NIS in millions
Balance sheet – key items					
Total assets	448,204	428,292	392,271	360,140	273,244
Loans to the public, net	325,346	307,472	271,428	245,525	204,708
Cash and deposits with banks	86,550	93,673	95,267	86,570	51,672
Securities	23,071	15,144	15,033	17,290	10,113
Buildings and equipment	1,531	1,503	1,734	1,743	1,457
Deposits from the public	358,553	344,514	307,924	284,224	210,984
Bonds and subordinated notes	37,070	33,287	38,046	33,446	33,460
Deposits from banks	4,571	6,994	6,992	3,779	714
Shareholders' equity(1)	27,461	23,780	20,770	18,804	16,033

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

The average annual growth in 2019-2023(2) amounted to:

Total assets –	11.7%
Loans to the public, net –	10.9%
Deposits from the public –	12.4%
Shareholders' equity –	13.3%

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Estimated average growth rate in 2019-2023, excluding Union Bank transaction: Balance sheet total 9.2%, loans to the public, net 9.1% deposits from the public 10.0%, shareholder's equity 11.8%.

Key financial ratios (in percent)

	For the year ended December 31				
	2023	2022	2021	2020	2019
Key performance benchmarks					
Net profit return on equity[1]	19.1	[9]20.1	15.8	9.5	11.9
Net profit return on risk assets[2]	1.86	1.91	1.53	0.89	1.17
Return on average assets	1.13	1.08	0.85	0.53	0.70
Deposits from the public to loans to the public, net	110.2	112.0	113.4	115.8	103.1
Ratio of Tier I equity to risk components	10.32	9.94	10.04	10.04	10.14
Leverage ratio[3]	5.83	5.42	5.18	5.19	5.55
Liquidity coverage ratio (Quarterly)[4]	131	118	125	133	121
Net stable funding ratio[5]	114	115	119		
Ratio of revenues[6] to average assets	3.39	3.32	2.75	2.63	2.76
Cost-income ratio – operating expenses to total revenues[7] (Cost Income Ratio)	37.7	[9]45.2	54.0	53.9	54.6
Basic net earnings per share (in NIS)	19.07	17.47	12.47	6.70	7.86
Key credit quality benchmarks					
Ratio of balance of provision for credit losses to total loans to the public	1.24	0.93	0.77	0.98	0.82
Ratio of non-accruing debts or debts in arrears 90 days or longer to loans to the public	1.16	0.87	0.95	1.18	1.36
Expenses with respect to credit losses to loans to the public, net for the period	0.45	0.17	(0.10)	0.43	0.18
Ratio of net accounting write-offs to average loans to the public	0.09	0.09	0.05	0.12	0.11
Other information					
Share price (in NIS) as of December 31	142.60	113.90	120.00	74.25	92.00
Dividends per share (in Agorot)[8]	540	366	482	75	239
Average employee headcount for the Group	7,148	[10]7,636	7,420	6,684	6,373
Ratio of net interest revenues to average assets	2.74	2.48	2.05	1.93	2.02
Ratio of commissions to average assets	0.46	0.50	0.52	0.55	0.58

Financial ratios indicate as follows:

- Net profit return on equity in this year was 19.1%, due to increased business volume, higher Bank of Israel interest rate and higher Consumer Price Index.
- The ratio of Tier I capital to risk components increased to 10.32%. The minimum ratio required of the Bank is 9.60%.
- The cost-income ratio in 2023 reached 37.7%.

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

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Net profit to total average risk assets.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218.
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(5) Net stable funding ratio – a liquidity ratio stipulated by the Supervisor of Banks, in conformity with recommendations of the Basel Committee, designed to maintain a sustainable financing structure over time, in addition to the liquidity coverage ratio. The requirement to calculate and maintain a minimum net stable funding ratio and the required public disclosure apply as from December 31, 2021.
(6) Interest revenues, net and non-interest revenues.
(7) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(8) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(9) Excluding effect of capital gain, net from sale of assets, net profit return on equity in 2022 was 19.0% and the cost-income ratio was 46.4%.
(10) Data through December 31, 2022 include 373 former Union Bank employees whose employment was terminated in early 2023.

Environment, society and governance

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

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

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

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

In recent years, global awareness of the potential impact of climate change for ecological systems, for society and for the global financial system has been growing. These effects are expected to continue in the coming years, to increase and to pose a key challenge to countries around the world. Bank Mizrahi Tefahot, being a leader in the Israeli banking system, is preparing for climate change and the resulting implications thereof. The Bank operates in conformity with Bank of Israel requirements and based on generally accepted global practices, in order to make the required adjustments to its operations in a professional, responsible manner – so as to benefit, *inter alia*, its stake holders and to ensure stability of the Bank and of the Israeli economy. The Bank acts to expand preparations for risks that may arise from climate change, in conformity with revised requirements and with evolving maturity level of global practices and of the Israeli economy. This is done while discharging its responsibility to provide optimal service to Bank customers.

In the past year, the Bank has published its TCFD report (Task Force on Climate-Related Financial Disclosures), presenting Bank assessments of effective management of climate risk. This report was created in conformity with the generally accepted global standard for such reporting. The report provides an extensive overview of all processes undertaken at the Bank over the past two years, so as to prepare for climate-related aspects, in conformity with regulatory requirements in Israel. These processes include, inter alia, creation of designated forums for managing this area, development of mechanisms for classification and assessment of climate risks, development of mechanisms for risk identification, management measurement and mitigation, as well as development of custom products to harness business opportunities arising from climate change and preparation there for.

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

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

Key ESG benchmarks (as of December 31):

	2023	2022	2021
Social			
Number of branches for the Group	206	204	225
Number of Group employees (annual average)	7,148	(3)7,636	7,420
Loans to social products (NIS in millions)	9,093	4,111	1,087
Investment in the community (NIS in millions)	40.8	20.4	17.2
Employee volunteer work hours (in thousands)	43.6	28.2	20.0
Small and micro suppliers as percentage of all Group suppliers	69%	68%	68%
Women as percentage of all employees	65%	65%	64%
Percentage of female senior executives (VP or higher)	46%	42%	42%
Percentage of Bank employees from under-employed demographics(1)	19%	15%	15%
Estimated percentage of employees recruited from under-employed demographics(1)	25.0%	17.6%	13.0%
Average training hours per employee	43	43	41
Investment in employee training (NIS in millions)	77.5	72.6	57.4
Environmental			
Change in carbon footprint (CO_2eq tons, Location Based, over the previous year)	(1.8%)	1.8%	(8.9%)
Change in carbon footprint compared to the base year 2020 (CO_2eq tons)	(8.9%)	(7.2%)	(8.9%)
Total emissions eliminated by environmental initiatives of the Bank (CO_2eq tons)	450	501	614
Loans to environmental products (NIS in millions)(2)	6,718	4,360	2,025

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

(2) Based on generally accepted global practice, the Bank measures green financing provided by actual credit amount utilized by customers to promote environmental causes (on-balance sheet credit).

(3) Data through December 31, 2022 include 373 former Union Bank employees whose employment was terminated in early 2023.

Bank Group and its operating areas

Bank Mizrahi Tefahot Ltd. (hereinafter: "the Bank") is a public company and was among the first banks established in the State of Israel. The Bank was incorporated on June 6, 1923 under the name Bank HaMizrahi Ltd. and holds a banking license. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In 1995, the Bank privatization process started, with control of the Bank transferred to Wertheim and Ofer Groups – this process was completed in 1997. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd. Later on, the Bank merged Adanim Mortgage Bank Ltd. (in 2009) and Union Bank Le-Israel Ltd. (in 2022) into the Bank.

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

Mizrahi-Tefahot Group (in this paragraph: "the Group") also includes, since 2008, Bank Yahav for Government Employees Ltd. (with the Bank holding 50% of all rights and means of control over Bank Yahav). The Group operates in Israel and overseas, and is engaged in commercial banking (business and retail) as well as in mortgage activities in Israel, and takes part in syndication transactions, through a nation-wide network of 206 branches, business centers and affiliates. Furthermore, business customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via two bank affiliates (in the UK and in the USA).

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

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2023):

Loans to the public	21.3%
Deposits from the public	18.4%
Total balance sheet	18.1%
Equity	15.7%

Major risks

Information about developments of risks, including effects of the war, is presented in the chapter "Risks overview" below and in the Risks Report on the Bank website.

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

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

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

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

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

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

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

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

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

Compliance and regulatory risk – The risk of imposition of sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions. Compliance risk also includes Bank compliance with fairness aspects and with privacy protection laws.

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

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

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

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 or inappropriate alignment of the Bank to changes in the business environment in which it operates.

Regulatory business risk – This risk refers to impact of new legislation and regulations and regulations in core matters of the financial system. Uncertainty with regard to developments and exposure of Bank operations to potential regulatory changes, that may impact core operations of the Bank.

For more information about major and emerging risks, see chapter "Risk events" below.

For more information, see chapter "Risks overview" and the 2023 Risks Report on the Bank website.

Business goals and strategy

Strategic plan

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

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

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

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

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

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

Significant developments in business operations

On October 7, 2023, Israel declared the Iron Swords war, following a murderous rampage launched from the Gaza Strip against towns and military bases close to the border. Bank Mizrahi Tefahot immediately took part in the national endeavor, with charitable donations, banking benefits and relief, while taking action designed to ensure continuity of customer service. Along with charitable donations made by the Bank, as from the outset of the war, to finance urgent needs of residents on the Gaza border, soldiers and volunteers, Mizrahi Tefahot resolved to adopt Sderot and Kfar Aza and to contribute to financing their needs on the immediate, medium and long terms. Furthermore, in order to help customers in general, and residents of the conflict regions in particular, the Bank published an outline of banking relief and benefits, which are significantly larger in scope than the basis stipulated by the Bank of Israel. For more information about Bank actions to adopt Sderot and Kfar Aza, as well as relief and banking benefits extended to Bank customers, see chapter "Significant developments in management of business operations" above.

In 2023, business in the mortgage market declined, with total residential mortgages originated in the banking system amounted to NIS 71.6 billion, a decrease by 39.4% and 38.7% compared to 2022 and 2021, respectively. This was due to higher interest rates, decrease in transaction volume in the market, higher macro-economic uncertainty and impact of the Iron Swords War on the economy. The increase in interest rates within a relatively short period of time poses a challenge to mortgage customers. As expected from the top leading mortgage bank in Israel, Mizrahi Tefahot offers a human service concept that is active and proactive, providing a range of products and solutions designed to provide relief to mortgage customers, existing and new alike. In this regard, the Bank has launched its unique products, "Mortgage at your own pace" and "Secure mortgage", allowing customers to adjust their monthly payment in line with their financial capacity. The Bank has also launched its free "Apartment Buying 101" course for those considering buying an apartment. Given the higher cost of living, and in order to optimally help Bank customers in these challenging economic times, the Bank launched a diverse, unique bundle of benefits for both current account management and for mortgages, including: Credit interest on current account, reduced interest on debit balance, offset of interest on debit balance, "Debit balance on us" plan for holders of a mortgage and a current account at the Bank, and annual credit of NIS 1,200 for mortgage customers who meet certain criteria. Over the past year, the Bank has maintained its leadership position in mortgages, while maintaining low risk features of loans: LTV ratio and repayment ratio to borrower income.

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

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

The Bank focuses its efforts on raising stable, diverse funding sources for various time horizons, from individual customers and from business customers, in order to further maintain appropriate liquidity ratios and in order to reduce the cost of funding sources required for its operations and thereby to improve its profitability. These efforts resulted in the Bank further expanding in 2023 its retail deposits while maintaining high liquidity ratios.

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

In 2023, competition in providing banking and financial services to the business banking segment was affected by rapid growth of credit extended to large businesses. Moreover, competition in this segment has been affected in recent years by expanded operations of non-bank entities focused on providing large-scale credit for long terms. The Bank faces competition in this segment by relying on the advantage of its human capital and on knowledge and experience in providing professional service and in adapting banking solutions to customer needs. The Bank's business strategy in this segment is designed to maximize the economic potential of capital, by focusing on high-margin activities relative to the required capital. Concurrently, the Bank acts to leverage its professional advantage, by increased collaboration in consortia with other entities. The Union Bank merger contributes to improved competitiveness of Mizrahi Tefahot and to its capacity to lead and finance the largest transactions in the market.

The Bank continues to maintain high operational efficiency through, *inter alia*, re-organizing assets and optimizing the branch network, by opening branches at locations with potential for business growth and streamlining the existing branch network. In 2022, work started on construction of the new Mizrahi Tefahot campus in Lod, which would house all Bank headquarters units. Project completion and relocation of the units are expected by 2025.

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

In 2023, the Bank signed a new payroll agreement with the Employees' Association, effective through 2026, as well as agreements that govern the onboarding of former Union Bank employees into the Bank. These agreements would allow the Bank to optimally and efficiently address the range of tasks and challenges on its agenda, while further promoting and empowering all Bank employees.

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

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Developments in capital structure

Investments in Bank capital and transactions in Bank shares

- For more information about share issuance as part of the employee stock option plan, see report of changes to shareholders' equity on the financial statements.
- On May 3, 2023, the Bank’s Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.

Raising of capital sources

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

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

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For more information about issue of bonds and contingent subordinated notes (Contingent Convertibles – CoCo) in 2023, see "Developments in financing sources" below.

Developments in financing sources

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

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

Deposits

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

Deposits from the public for the Group as of December 31, 2023 amounted to NIS 358.6 billion, compared to NIS 344.5 billion at end of 2022: an increase by 4.1%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2023 by 2.6%; deposits in the CPI-linked segment increased by 7.8%; and deposits denominated in or linked to foreign currency increased by 8.9%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Bank of Israel

The Bank of Israel is the primary source for short-term funding and funds absorption for the banking system, including for the Bank. In view of the Iron Swords War, in November 2023 the Bank of Israel launched a move whereby it would provide low-cost, long-term funding sources to banks (Bank of Israel interest rate minus 1.5%), for these to be "rolled on" as available credit to the business sector. This plan was concluded in January 2024.

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

The Bank of Israel absorbs excess liquidity through MAKAM tenders (short-term treasury notes) and through monetary deposits for terms of 1 day, 1 week and up to 8 weeks. In 2023, excess liquidity in the banking system deposited in the Bank of Israel declined due to sharply higher MAKAM issuance by the Bank of Israel.

Issuance of obligatory notes, bonds and complex capital notes

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

On August 1, 2022, Tefahot Issuance published a shelf prospectus for issuance of bonds. On May 4, 2023, the Bank issued a shelf prospectus for issuance of obligatory notes. These prospectuses are valid for two years, with an optional extension by a further one year.

As of December 31, 2023, total bonds and subordinated notes amounted to NIS 37.1 billion, compared to NIS 33.3 billion as of December 31, 2022.

Of these, contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III qualification provisions and recognized by the supervisor of Banks as Tier II capital), as of December 31, 2023, amounted to NIS 5.4 billion, compared to NIS 6.0 billion as of December 31, 2022.

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

Issuance and redemption of funding sources

On February 20, 2023, Tefahot Issuance issued commercial paper (Series 1) for NIS 1.1 billion.

On June 12, 2023, Tefahot Issuance issued a new series of NIS-denominated CPI-linked bonds (Series 67), with total par value of NIS 2.0 billion, for consideration amounting to NIS 2.0 billion.

In August 2023, Bank Yahav made a full early redemption, after obtaining approval from the Bank of Israel, subordinated notes amounting to NIS 0.2 billion.

On October 22, 2023, further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 48, recognized by the Supervisor of Banks as Tier II capital of the Bank), for NIS 0.7 billion.

On December 26, 2023, Tefahot Issuance issued a new series of CPI-linked bonds (Series 68), a series of CoCo contingent subordinated notes (Series 69) and commercial paper (Series 2). The total consideration received amounted to NIS 4.6 billion, of which NIS 0.6 billion for CoCo contingent subordinated notes (Series 69).

Significant developments in management of business operations

Assistance to those affected by the war

On October 7, 2023, the Iron Swords war was declared following a sudden murderous rampage into settlements close to the Gaza Strip border. This was concurrently with the start of military escalation on the Northern border.

The Bank is prepared to continue its operations and to provide service to its customers, including in war-affected zones, in as much as possible. For more information see chapter "Operational risk" below.

Concurrently, the Bank takes part in the national endeavor and has announced the allocation of funds for charitable donations and assistance to civilians affected by the war, and has launched programs to provide relief to Bank customers, with emphasis on customers resident in war-affected regions, so as to help them get through this war period and its economic implications. For more information see also chapter "Significant developments in management of business operations".

Charitable donations and adoption of Sderot and Kfar Aza – Immediately upon the outbreak of war, the Bank started to provide monetary donations to fund the purchase of equipment, food and other urgent needs of those residents adjacent to the Gaza Strip (up to 7 kilometers from the Gaza border), of soldiers and of volunteers. Concurrently, the Bank announced its decision to adopt Sderot and Kfar Aza, providing a solution for needs of these towns and the residents thereof over the immediate, medium and long term, especially in areas where the Government is not involved. There is also focused activity under way to help small businesses at Kfar Aza. Bank teams have met with relevant parties in these two towns, to jointly map out the needs and projects in which the Bank would take part, and have started providing funds for financing these. Concurrently, a program would be put in place to provide resolution for matters to be addressed in later stages, including action to rebuild the area and to return to normal life. Total charitable donations allocated by the Bank for adoption of towns and other activities to benefit residents of the Gaza border and Northern border areas is estimated at NIS 70 million.

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Relief and banking benefits to Bank customers – In order to help Bank customers get through this challenging period, the Bank decided in October 2023 to offer a range of solutions to provide assistance and relief to Bank customers, substantially larger than the basis set by the Supervisor of Banks, including the following:

- Automatic waiver of mortgage payments for several months for residents of the Gaza border area, and option to freeze mortgage payments for several months in addition, with no interest or linkage and at no cost;
- Freezing of mortgage payments, free of interest, linkage and fees, for a further 3 months beyond the Bank of Israel outline (for a total of 6 months) for Bank customers resident in the Northern region, who have been evacuated from their homes by order of the Government;
- Freeze on mortgage payments for up to 12 months, and on other loan payments for up to 3 months, for all Bank customers;
- Waiver of interest payable on debit balances of up to NIS 10,000 for individual customers resident in the Gaza border area or in the Northern border region, or those affected by the war or relatives thereof;
- Waiver of fees for 3 months, for individual and small business customers who are resident in the Gaza border region or in the Northern border region, serving in the military reserve forces or those affected by the war or relatives thereof;
- Increase of checking account facilities for individual customers at Bank branches in the Southern region, up to NIS 30 thousand;
- Loans to help customers facing liquidity issues due to the war: Loans to individual customers up to NIS 25 thousand and loans to business owners, up to NIS 50 thousand, free of interest and linkage, for a term of up to 1 year.
- Bridging loan for customers whose cars were impacted: financing of up to 100% LTV, free of interest and fees, for 3 months – to bridge the period until they receive compensation from the Government property tax fund;
- Option to withdraw from term deposits, up to NIS 100 thousand, at no cost for residents of the conflict zones in the South and in the North;
- Bonus of up to NIS 20 thousand to business customers in the Gaza border region and in towns adjacent to the Northern border, and loans to business customers through diverse funds and State-guaranteed loans.

Note that the Bank of Israel outline, originally issued for 3 months, was extended twice by a further 6 months for customers enrolled in this outline.

Furthermore, in order to assist businesses and professionals, primarily from the combat areas, whose economic activity was significantly impacted (or fully disrupted), the Bank created a platform named "Orange. Israel" on the Bank website, allowing them to advertise their services at no cost, thus gaining exposure with customers and potential buyers all across Israel.

The estimated value of relief and banking benefits extended to all Bank Group customers, beyond the charitable donation amount, is NIS 531 million (including banking relief and benefits provided to residents of Sderot and Kfar Aza, as noted above), assuming full utilization of all benefits offered to the relevant population. As of February 29, 2024, this is estimated at NIS 538 million and utilization of the various relief measures, other than payment freeze, was at 83% (100% for residential, 62% for households and 94% for small and micro businesses). Unlike other banking benefits, loan payment deferment is only undertaken by customers who require this, and therefore the utilization rate is expected to be low. Thus, total relief and benefit utilization amounted to NIS 169 million, a 31% utilization rate.

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Below is the economic cost of benefits provided by the Bank to address the Iron Swords War (NIS in millions)

	As of December 31, 2023					
	Resi-dential	Private indivi-duals – other	Small and micro busi-nesses	Medium busi-nesses	Large busi-nesses	Total
Changes to terms and conditions of debt	**61**	**10**	**13**	**-**	**1**	**85**
Of which: Loan payment forgiveness	35	1	3	-	-	39
Of which: Payment deferment at 0% interest	26	2	8	-	1	37
Of which: Waiver of debit interest in current account	-	7	2	-	-	9
Interest-free loans or at reduced interest	**-**	**8**	**1**	**-**	**-**	**9**
Waived commissions	**1**	**11**	**15**	**-**	**-**	**27**
Other benefits	**-**	**-**	**5**	**-**	**-**	**5**
Of which: Monetary donations	-	-	5	-	-	5
Total economic cost of benefits provided by the Bank:						
As of December 31, 2023	**62**	**29**	**34**	**-**	**1**	**126**
As of February 29, 2024	**92**	**32**	**43**	**1**	**1**	**169**
	As of December 31, 2023					
Total un-utilized benefits	**295**	**67**	**37**	**1**	**5**	**405**
Of which: Payment deferment at 0% interest	295	49	33	1	5	383
Of which: Waiver of debit interest in current account	-	10	2	-	-	12
Of which: Interest-free loans or at reduced interest	-	7	1	-	-	8
Of which: Loan payment forgiveness	-	1	1	-	-	2
Total economic estimate of benefits provided by the Bank, assuming full utilization	**357**	**96**	**71**	**1**	**6**	**531**

More information about activities to benefit borrowers in addressing the War

	As of December 31, 2023					
	Resi-dential	Private indivi-duals – other	Small and micro busi-nesses	Medium busi-nesses	Large busi-nesses	Total
Loan balance with changes to terms and conditions of debt as of December 31, 2023	**23,714**	**855**	**3,612**	**219**	**144**	**28,544**
Of which: Problematic credit	205	12	107	3	22	349
Of which: Credit subject to re-structuring of problematic debt	1	4	24	-	-	29
Payment amounts deferred	627	97	546	33	22	1,325
Average payment deferment by months	4.32	3.29	3.02	2.67	2.97	
Balance of loans extended interest-free or at reduced interest	**-**	**132**	**27**	**-**	**-**	**159**
Average interest rate(1)	-	3.05	(2)-	-	-	2.53
Loans extended in State-guaranteed funds						
Credit balance	-	-	333	21	-	354
Average interest rate	-	-	7.94	7.97	-	7.94
Of which:						
Credit balance extended with Bank of Israel financing	-	-	15	-	-	15
Average interest rate	-	-	6.43	-	-	6.43
Balance of loans extended with Bank of Israel financing (including through State-guaranteed funds)						
Credit balance	-	-	16	-	-	16
Average interest rate			6.43			6.43
Loan balance with changes to terms and conditions of debt as of February 29, 2024	**18,184**	**439**	**1,892**	**121**	**42**	**20,678**

(1) Average prime lending rate in this period: 6.25%

(2) Interest-free loans extended

Benefits to help bank customers

On June 28, 2023, 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 bonus for mortgage borrowers, interest paid on credit balances in current accounts subject to criteria, reduced interest on debit accounts 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.

Concurrently, the Bank continues to be proactive in proposing to customers the option to re-finance loans, to adjust their payment schedule and so forth, in order to help mortgage customers who suffer a significant increase in monthly loan repayment due to higher interest rates in the market.

Branch network

Group branches are primarily intended to provide high-quality, professional service to customers across all bank activities, close to where such service is required (residence / business location). To this end, branches manage day-to-day customer activities and offer to customers and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are spread nation-wide and as of December 31, 2023 consisted of 206 business centers and branches, including 55 Bank Yahav branches (of which 3 branches operating partially).

The Bank continues to review its branch network in accordance with its strategic plan, with optimization and location selection based on considerations such as providing optimal service to customers, economic viability considerations etc.

In 2023, the Bank Group branch network expanded with 2 new points of sale.

For more information about sale of Bank Group land, see chapter "Significant Events in the Bank Group's Business" below.

The Bank operates 6 "LIVE" branches, geographic super-branches that provide full, personal service over extended business hours and through diverse communication channels between banker and customer (including through mobile phone calling and text messaging, video communications or by email).

Direct channels

Policy applied by the Bank with regard to direct channels:

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

Direct channels offered to Bank customers include:

Hybrid Banking services

Hybrid Banking is the epitome of the combination of personal service accessible to customers and technology.

Hybrid Banking services are provided by Bank branches and banking centers, as follows:

- Bank branches – phone call, email and SMS from an identified customer are directly routed to the customer's banker and answered by the banker or by the backup team at the branch.
- The branch team at the banking center provides backup for bankers in branches, facilitating transactions and providing information to Bank customers, as part of the combined Hybrid Service provided to customers.

Online and cellular services

Online service – provides banking information and facilitates transactions in the account for diverse banking products available to Bank customers.

Account management application – allows one to get most of the E-banking services, using optional fingerprint and facial recognition for authentication.

Tefahot Touch app – this app is used by customers, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. Some of the actions required for taking out a mortgage, which previously required customers to go to the branch in order to conduct them, can now be easily completed using the Tefahot Touch app. Moreover, this is yet another channel for customers to contact the Bank's mortgage experts. The Tefahot Touch app includes an arena for mortgage consultants.

Self-service at branches

- The Bank constantly expands the services provided to customers at self-service stations.
- Service stations – the Bank provides to service stations allowing customers to conduct transactions, such as: Depositing cash, taking out a loan, ordering checkbooks and depositing checks and obtaining information about their commercial accounts independently, 24 hours a day - even when the branch is closed (at most Bank branches).
- ATMs – As of the end of 2023, the Bank owns 269 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

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Expansion of business operations

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

Strategic collaboration

In 2023, the Bank continued to conduct syndication transactions, including sharing of credit risk with institutional and financial entities in Israel and overseas. Further collaboration with institutional entities is part of the Bank's strategic plan.

Significant developments in human resources and administration

Developments in labor relations

Union Bank employee onboarding agreements

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.

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.

Highlights of this agreement regarding salary and bonuses are as follows:

- An additional NIS 1,000 was paid on top of each employee's monthly salary, as well as an additional NIS 200 for branch employees, for the period as from January 1, 2022. These amounts would be linked to the Consumer Price Index as from January 1, 2023.
- Additional pay to employees in certain roles, such as Team Leader and Authorized Signatory.
- The parties agreed that the base salary would be increased by 3% in each year between 2023-2024 and by 2% in each year between 2025-2026.
- Social benefit contributions were revised so as to expand the base salary for retirement contributions and, in addition, the base salary for contributions to study funds was made identical to that for retirement contributions.
- On September 1, 2023, the Bank paid a bonus to employees hired prior to January 1, 2022 (who are still employed by the Bank), whose amount equals two 13th monthly salaries; employees hired on or after January 1, 2022 (who are still employed by the Bank) paid a bonus equal to one 13th monthly salary.

Various understandings were reached to enhance the Bank's managerial flexibility and to promote excellence, especially 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. These include, *inter alia*:

- Increase in number of individual employment contracts at Bank headquarters.
- Potential individual award of pay increase to headquarters employees, subject to certain conditions.
- Extension of the trial period for a specified number of employees, up to 5 years.
- Option to reassign employees at the Bank's discretion.
- Option to terminate up to 70 employees, initiated by the Bank due to unsuitability of employees classified as making a low contribution, during the term of this agreement.
- Considering the expected transition of Bank headquarters employees to the new Bank campus in Lod, the parties agreed that work conditions (including with respect to employee welfare) in the new campus would be determined by the Bank exclusively, after consulting the employee union. The employee union shall have no claims whatsoever with respect to transition to the new campus.
- Full and complete labor relations would be maintained throughout the term of the agreement.

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.

The Bank's financial statements include the effect of the payroll agreement. This agreement has no material impact on the Bank's financial statements in 2023 and should have no material impact in subsequent years either. Payroll expenses at the Bank for all of 2023 include NIS 85 million with respect to the agreement, and should include an additional NIS 30-45 million in each year between 2024-2026.

Developments in logistics

In 2023, the Bank continued the trend of streamlining and utilizing existing resources as follows:

- Streamlining of areas.
- Optimization of the branch network.
- Further leverage of infrastructure, through temporary leasing to a third party of areas used by the Bank as reserve for future growth.
- On April 30, 2017, the Bank Board of Directors resolved to approve a strategic move of Bank headquarter units to a single central site in Lod. In 2023, skeleton construction work continued and a contractor was selected for finishing work. Project completion and relocation of the units are expected by 2025.

The activities and trends described above are expected to continue in 2024 as well.

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For more information about human capital at the Bank, organizational structure of the Bank and senior officers, see chapter "Corporate governance, audit, other information about the Bank and its management" in this annual report.

Changes to the Bank Board of Directors

On December 20, 2023, the Annual General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman as Chairman of the Board of Directors of the Bank for an additional term through June 15, 2024. For more information see Immediate Report dated December 20, 2023 (reference no. 2023-01-138630).

On February 12, 2024, the Bank reported that the Bank's Board of Directors resolved to appoint Mr. Avi Zeldman (who has been serving the Bank as Board member since 2015) to be Chairman of the Board of Directors, effective as from June 16, 2024, after expiration of Mr. Moshe Vidman's term in office. Mr. Zeldman's term in office is subject to the Bank not receiving notice from the Supervisor of Banks of their objection to this appointment, or subject to receiving notice from the Supervisor of their consent to the appointment. For more information see Immediate Report dated February 12, 2024 (reference no. 2024-01-015285).

Changes to management and organizational structure of the Bank

On February 12, 2023, the Bank Board of Directors approved the recommendation by the Bank President & CEO, to appoint Mr. Ofer Hurwitz, who served as Bank Secretary and Head of the Bank Headquarters, to be Deputy CEO and Manager, Risks Management Division, replacing Mr. Doron Klauzner who retired. The Supervisor of Banks announced that they had no objection to this appointment, subject to putting in place a training program on risk management; The Board of Directors' Risk Management Committee approved such a program which was completed. Mr. Hanan Kikuzashvili, who served as Deputy Bank Secretary, was appointed Bank Secretary and Head of Bank Headquarters, replacing Mr. Ofer Hurwitz. Ms. Meital Harush, who served as Manager, LIVE and Direct Banking Sector, was appointed Deputy CEO and Manager, Human Capital and Resources Division, replacing Mr. Nissan Levi, who concluded their term in office as Manager, Human Capital, Resources and Operations Division. The Board of Directors also approved the creation of two new sectors: Banking Operation Sector and Enterprise-Wide Projects Sector, whose managers were appointed part of Bank management. The Banking Operation Sector, which includes inter alia the back-office operations, engineering and banking processes, clearing house and mortgage insurance agency, is headed by Mr. Micha Argaman, who served as Deputy Manager of the Human Capital, Resources and Operations Division. The Enterprise-Wide Projects Sector, which is responsible inter alia for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies, is headed by Mr. Tal Ben Ari, until recently VP and Manager, Finance Division of Union Bank.

These appointments and re-organization became effective on April 1, 2023.

Appointment of Bank Yahav CEO

On February 26, 2023, the CEO of Bank Yahav, Mr. Shaul Gelbard, informed the Bank Yahav Board of Directors of their wish to conclude their term in office. In April, the Bank Yahav Board of Directors approved the appointment of Mr. Avshalom Buskila as CEO of Bank Yahav, effective as from July 1, 2023. In the past decade, Mr. Avshalom Buskila was Head of Northern Region at Bank Mizrahi Tefahot.

Significant developments in IT

In recent years, the Bank started a project to replace its CRM system gradually, over several years (as from 2022). In 2023, two significant milestones went live, along with development of the remaining milestones expected to be launched in the coming years.

As part of bolstering the technology infrastructure and the need to address evolving challenges in the business environment, the Bank launched a project to upgrade the digital channel infrastructure and the services offered based on such infrastructure, so as to allow customers a wider range of advanced channels for them to obtain the service at their choice.

The Bank is also acting to develop advanced tools for managing data and information, in order to improve the measurement capabilities used in making business decisions and in risk management.

Along with this, the Bank – through the Technology Division – continued to invest in development and maintenance of all Bank systems.

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

For more information about fixed assets and installations, see chapter "Corporate governance, audit, other information about the Bank and its management" in this annual report.

Developments in international geographic deployment

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

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

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

Each overseas affiliate acts in compliance with local laws and regulations, and is constantly assisted by local legal counsel, specialized in the banking activity relevant to each affiliate.
International operations are also subject to cross-border risk; for more information see chapter "Risks Overview" below.

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

Other matters

Monetary sanction

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

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

Amendment of bylaws

On September 5, 2023, the General Meeting of Bank shareholders approved amendment of bylaws 1.1, 142, 143, 144 and 145 of the Bank Bylaws, with regard to officer indemnification and insurance. This is so as to allow for insurance and indemnification due to payment to the injured party due to breach and due to expenses with respect to an administrative proceeding, including reasonable litigation expenses and legal fees, in conformity with provisions of the Financial Information Services Law, 2021 and the Payment Services and Payment Initiation Regulation Law, 2023.

Amendment of letter of waiver and commitment to indemnification

On September 5, 2023, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future.

The amendment stipulates, *inter alia*, that the commitment to indemnification would also apply in these cases: (1) Financial liability imposed due to payment to the injured party due to breach, as set forth in Section 52 (54)(a)(1)(a) of the Securities Law, pursuant to the Financial Information Services Law and pursuant to provisions of the Payment Services and Payment Initiation Regulation Law. (2) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter E (titled "Monetary sanction"), or a proceeding pursuant to Chapter F (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Financial Information Services Law (or any other proceeding pursuant to this law), as amended from time to time. (3) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter G (titled "Monetary sanction"), or a proceeding pursuant to Chapter H (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Payment Services and Payment Initiation Regulation Law (or any other proceeding pursuant to this law), as amended from time to time. The list of events in the addendum to the letter of commitment was also revised.

Pursuant to a resolution by the Audit Committee dated July 17, 2023 and to approval by the General Meeting of Bank shareholders, the resolution to approve the amended letter of commitment, with regard to its applicability to controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than three years after approval by the General Meeting of Bank shareholders (i.e. after September 5, 2023), as required by law. The resolution to approve the amended letter of commitment, with regard to its applicability to all other eligible parties other than controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than 9 years after approval by the General Meeting of Bank shareholders (i.e. after September 5, 2023).

For more information see Immediate Report dated July 27, 2023 (reference 2023-01-086163), Immediate Report dated September 5, 2023 (reference 2023-01-103332) and Immediate Report dated September 5, 2023 (reference 2023-01-103356).

Interested party in the Bank

On April 4, 2023, the Bank reported that Harel Insurance Investments & Financial Services Ltd. ceased to be an interested party in the Bank. For more information see Immediate Report dated April 4, 2023 (reference no. 2023-01-038769).

On December 12, 2023, the Bank reported that Harel Insurance Investments & Financial Services Ltd. became an interested party in the Bank. For more information see Immediate Report dated December 12, 2023 (reference no. 2023-01-135372).

Legal Proceedings

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

Explanation and analysis of results and business standing

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

Trends, phenomena and material changes

General environment and impact of external factors on the Bank Group

Effects of the war

On October 7, 2023, war was declared following a sudden murderous rampage into settlements close to the Gaza Strip border. This was concurrently with the start of military escalation on the Northern border. Like many civilians, NGOs and companies in the business sector, the Bank also immediately took part in the national endeavor and decided on a range of steps designed to support and assist settlements adjoining the Gaza Strip and the Northern border impacted by the state of war, as well as Bank customers nation-wide who were directly or indirectly impacted by the state of war and economic implications thereof.

In view of the war events, economic uncertainty is prevalent. There are many disruptions to economic operations, which may impact the economy – including impact to business activity, absence from work and so forth. Note that even prior to this war, there was uncertainty with regard to the economy due to macro-economic conditions and Government plans to promote changes to the judicial system and the public disagreement with regard to this move. Due to these security events, Government defense expenditure is expected to increase – which would increase the budget deficit, and there is concern about impact to economic growth. As the war started, the capital market reacted with declines on the Israeli stock exchange and the NIS was significantly devalued against the USD – but these effects became more moderate later on.

Due to the higher systemic risk in the economy due to the war, the overall risk assessment at the Bank also increased, although for most risks, no significant indications have yet been identified that support actual increase in risk, and in particular with respect to material risks that may be impacted by the war, including credit, financial, business continuity, cyber and information security risk. For more information see chapter "Risks Overview" below.

For more information about the increase in group-based provision for credit losses in 2023, designed to reflect assessment of increased credit risk in the economy due to the war, and for assumptions and sensitivity analysis performed by the Bank, see chapter "Material developments in revenues, expenses and other comprehensive income" and chapter "Accounting policies for critical matters".

For more information about Bank actions to adopt Sderot and Kfar Aza, as well as relief and banking benefits extended to Bank customers, see chapter "Significant developments in management of business operations" above.

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General environment and impact of external factors on the Bank Group

Major developments in the banking sector in Israel and overseas

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

- The release of pent-up demand in 2021 as the world emerged from the Corona Virus crisis and as restrictions on business activity were lifted, contributed to deterioration in disruptions in the global supply chain and to higher inflation around the world. In 2022, inflation was higher due to the Russia-Ukraine war and to lock-downs imposed in China due to new Corona Virus outbreaks. The higher inflation globally seeped into the Israeli economy as well. In order to moderate the inflation rate, many central banks in developed nations have raised their monetary interest rates in 2022, and have taken other measures to reduce their expansive monetary policy.
- In 2023, global inflation rates started to gradually moderate, due to lower energy prices, more moderate increase in commodity prices and relief in disruptions to supply chains. However, inflation still remained high compared to central bank targes, due to demand pressures in service sectors. Concurrently, the monetary tightening trend continues, although at a slower pace of raising monetary interest rates in the second half of the year. In Israel, inflation remained high in the first half of the year, and therefore the Bank of Israel continued to increase the

monetary interest rate. As from the middle of the year, the pace of inflation became more moderate, in both negotiable and non-negotiable components. Therefore, the Bank of Israel interest rate remained unchanged in the second half of the year, at 4.75%. In early January 2024, the Bank of Israel lowered its interest rate to 4.5%. There is still concern about sticky inflation or a renewed inflationary outbreak in developed economies, but the likelihood of such occurrences was lower in the second half of 2023.

- The Iron Swords War that started early in the fourth quarter of 2023 resulted in wide-spread impact to economic activity. As the war broke out, banks announced a range of benefits and relief offered to their customers, designed to facilitate going through the war period and its economic implications. These benefits and relief were provided in conformity with the outline issued by the Supervisor of Banks, and even exceeded the base line stipulated by the Bank of Israel.
- Geo-political tension – There is still considerable uncertainty with regard to increased geo-political tension globally, in particular between Western countries and Russia and between the USA and China, which is a major risk factor that may impact the global macro-economic environment. Furthermore, continued highly intensive combat in the South and further combat on other fronts – increased intensity of the conflict with Hizballah on the Northern front, increased security tension in Judea and Samaria and continued security threat to shipping in the Red Sea – may result in increased geo-political tension in the Middle East.
- In recent years, consumer transparency has grown due, *inter alia*, to banking reforms promoted by the Bank of Israel in order to improve consumers' ability to compare and to increase competition between banks:
  - In September 2022, the Bank of Israel launched a reform designed to increase information transparency for mortgage customers. As part of the reform, banks allow for a new mortgage application to be filed online; approval in principle is provided within a few days to the customer, in a uniform format; the approval in principle includes, in addition to the mortgage basket proposed by the banks, three uniform baskets with compositions specified by the Bank of Israel.
  - In October 2022, the Bank of Israel launched its interest rate transparency reform. This reform stipulates publishing the average interest rates actually offered/charged for deposits/loans by each bank. In February 2023, the information provided as part of this reporting was expanded to include breakdowns and other interest calculations. In July 2023, additional information was provided, including details of interest with respect to residential mortgages.
- Accelerated development of digital banking, based on the online platform and increased use of mobile phones, along with regulatory relief offered by the Bank of Israel in order to promote digital activity. Along with these developments, use by households and businesses of the digital channels is consistently growing. Moreover, the increasing use of digital allows technology companies to enter into the fray of financial brokerage, while creating collaboration with the banking system.
- Competition in the household segment and in the small and medium business segments, has been growing in recent years as the banking system focused on these segments, along with a growing number of non-bank financial entities entering this arena. Separation of credit card companies from the top two banks was completed in 2019. Credit card issuers are making an effort to grow their retail credit and to expand their customer base in non-bank loyalty clubs. These effects are in addition to new regulatory directives in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Law and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors.
- In February 2024, the Bank of Israel issued a call for public comments on a gradual outline to provide a banking corporation license to non-banking entities, including credit card companies, which would allow them to take deposits from the public and to extend credit based there upon. In this outline, the license and banking supervision would be adapted for the required operations and the risk level associated with operations of the license applicant. The outline is designed to promote entry of additional players into the banking system and to increase competition, both for deposits and for credit.
- Digital development and technology evolution in recent years affect the financial system and modify production in the banking sector, due to growing transition to relying on advanced technology. Such technology supports a wider range of banking services available through digital channels, along with lower production cost. Given these trends, technology-based financial entities – FinTech companies and digital banks – have started making in-roads into the banking sector world-wide. The first digital bank in Israel launched operations in March 2021.
- In response to these developments, in recent years banks have been undergoing a digital transformation in order to streamline production in these areas:
  - Deployment of technology improvements for streamlining of operational processes.
  - Digitization of banking services for expanding the product offering to customers, with improved availability and quality.
  - Gradual replacement of IT systems to improve response time, enhance flexibility and achieve infrastructure stability.

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

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Developments in the Israeli and global economy in 2023

Israeli economy

Israel's economy maintained strong growth in the first 3 quarters of 2023, despite the higher political and social tensions due to the Government initiative to promote legislation to make changes to the legal system without a broad consensus. However, the third quarter saw a slow-down in economic activity. The labor market remained tight, with employment levels reflecting a situation of full employment.

The Iron Swords War that started early in the fourth quarter resulted in impact to economic activity as follows: decrease in private consumption, employees placed on furlough, employee absence due to military call-up of reserves and shut-down of educational institutions, significant decline in employment of foreign workers, which primarily caused a decline in activity in the construction and agriculture sectors. At the outset of the war, the NIS was sharply devalued and yields on Government of Israel bonds rose sharply due to the higher risk premium and lower prices on the Israeli capital market. The Bank of Israel announced plans to sell foreign currency (up to USD 30 billion), so as to moderate the fluctuations in NIS exchange rates and to provide liquidity required for continued normal market operation. As of the end of 2023, the Bank of Israel used USD 8.5 billion out of the plan total, thus maintaining significant capacity to intervene in the market. One month into the war, the volatility in financial markets settled and the NIS was revalued. Economic activity in Israel recovered later in the fourth quarter, with credit card spending returning to normal levels, despite high variance between economic sectors and between various geographic regions. Concurrently, employees placed on furlough started to return to work, resulting in a lower broad unemployment rate.

The Israeli economy is still in a period associated with high uncertainty with regard to development of the Iron Swords War – with regard to its duration, scope and intensity, as well as with regard to fiscal implications of the war.

Real developments

In 2023, GDP in Israel increased by 2.0%, following 6.5% growth in 2022. GDP growth in the past year was primarily due to the sharply lower GDP in the final quarter of 2023, at an annual rate of 19.4%, due to the Iron Swords War. GDP growth in 2023 was affected by lower investment in fixed assets, exports of goods and services and private consumption. Conversely, public consumption increased.

According to a revised forecast by the Bank of Israel Research Division dated January 2024, GDP in Israel is expected to grow by 2.0% in 2024 and by 5.0% in 2025.

The labor market in Israel reached full employment in the first three quarters of 2023 – the broad unemployment rate at end of September was 4.0%. This compared to 5.1% in December 2022. As the Iron Swords War broke out, the broad unemployment rate increased sharply, to 10.2% at end of October 2023, but as employees returned from furlough, this rate moderated to reach 7.2% at end of December 2023. In December, the number of open jobs in the economy was 101 thousand jobs, compared to a high reading of 139 thousand jobs in the corresponding period last year.

Inflation and exchange rates

In 2023, the Consumer Price Index increased by 3.0% (the high limit of the Bank of Israel target range), compared to an increase by 5.3% in 2022. The more moderate increase in CPI was due to higher interest rates in the first half of 2023 and more moderate commodity and energy prices, along with a slower pace of increase in rent. The CPI increase in 2023 was primarily in housing, transportation, communication and food. In the twelve months ended January 2024, the CPI increased by 2.6%.

In 2023, the NIS was devalued with high volatility, in view of the political-social crisis and the Iron Swords War, together with the high inflation environment. In 2023, the NIS was devalued by 3.1% vs. the USD. The NIS devaluation trend increased inflationary pressures in Israel.

Information about official exchange rates and changes there to:

	December 31, 2023	December 31, 2022	Change in %
Exchange rate of:			
USD (in NIS)	3.627	3.519	3.1
EUR (in NIS)	4.012	3.753	6.9

On March 05, 2024 the USD/NIS exchange rate was 3.591, a devaluation by 1.0% compared to December 31, 2023. On said date, the EUR/NIS exchange rate was 3.898, a 2.8% revaluation compared to December 31, 2023.

Monetary policy

Through mid 2023, the Bank of Israel gradually raised the interest rate in view of the high inflation environment, the stable economic activity and the tight labor market. This was similar to the trend for many central banks around the world. In May 2023, the Bank of Israel interest rate reached 4.75%, compared to 3.25% at the end of 2022. In early January 2024, the Bank of Israel lowered the monetary interest rate to 4.5%, due to the lower inflation and in order to support economic recovery in view of the war.

Fiscal policy

In 2023, the government budget recorded a NIS 77.5 billion cumulative budget deficit, compared to a NIS 9.9 billion budget surplus in 2022. The deficit rate as percentage of GDP in 2023 was 4.2%, compared to 0.6% in 2022. In 2023, Government expenditure increased by 12.5% compared to the corresponding period in the previous year, primarily due to increased defense expenditure to cover the cost of combat, higher civilian expenditure for supporting evacuees, compensating businesses and recovery of impacted areas. Tax collection decreased by a nominal 6.4% compared to the corresponding period last year.

On January 15, 2024, the Government of Israel passed a revised 2024 budget, reflecting expected deficit at 6.6% of GDP.

On October 17, 2023, international rating agency Fitch announced it was placing Israel's rating on Negative Watchlist, due to change in the risk perception in view of the war and the potential for expansion of the conflict to other regions over an extended period. The rating agency emphasized that this is not a major scenario, but should it materialize – it may further exacerbate the existing implications.

On October 19, 2023, Moody's rating agency announced its decision to place Israel's credit rating under rating watch negative. This means that in case of significant deterioration in the security situation, the agency may lower this credit rating.

On October 24, 2023, S&P rating agency confirmed Israel's credit rating and outlook at AA-, but lowered its rating outlook from Stable to Negative.

On February 9, 2024, rating agency Moody's announced it was lowering the credit rating of Government of Israel debt, from A1 to A2 with Negative rating outlook. Further to its decision, on February 13, 2024 Moody's announced it was lowering the credit rating of the top 5 banks in Israel, from A2 to A3 with Negative rating outlook.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, new apartments sold in 2023 was 27.9 thousand apartments, a decrease by 30.7% over the corresponding period last year and by 51.7% over the corresponding period in 2021. In 2023, residential mortgages extended to the public amounted to NIS 71.6 billion, compared to NIS 118.2 billion in the corresponding period last year and NIS 116.8 billion in the corresponding period in 2021 – a decrease by 39.4% and 38.7%, respectively. The sharp decrease in number of transactions and in mortgage originations in 2023 was primarily due to the higher interest environment in the first half, and to outbreak of the Iron Swords War in the fourth quarter of the year. Concurrently, the inventory of un-sold apartments held by construction companies increased.

According to data from the Central Bureau of Statistics, owned housing prices in 2023 decreased by 1.4%, following an increase by 16.9% in 2022 and an increase by 11.5% in 2021.

Capital market

Global equity market were highly positive in 2023, led by the stock exchanges in the USA and in Europe, comparted to a weaker positive trend in key benchmarks on the Israeli equity market.

Trading on global equity markets in the fourth quarter of 2023 was highly positive, led by stock exchanges in the USA and in Europe, compared to a slightly positive trend of major equity benchmarks on the Israeli market.

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

CPI	2023	2022	2021
Tel-Aviv 35	3.8	(9.2)	32.0
Tel-Aviv 125	4.1	(11.9)	31.2
Tel-Aviv 90	4.3	(18.3)	33.1

The average daily trading volume of shares and convertible securities in the 'fourth quarter of 2023 amounted to NIS 1.9 billion on average – compared to NIS 2.0 billion in the corresponding period last year. In 2023, the average volume was NIS 2.0 billion, compared to an average volume of NIS 2.3 billion in 2022.

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

CPI	2023	2022	2021
All-Bond general	3.8	(8.3)	4.1
Government bonds, CPI-linked	(0.4)	(9.8)	7.4
Government bonds, non-linked	1.4	(8.8)	(0.8)
Tel-bond 20	4.8	(10.0)	8.3
Tel-bond 40	5.8	(8.0)	7.3

Global economy

According to the IMF forecast dated January 2024, global GDP growth in 2023 was 3.1%, compared to 3.5% growth in 2022. Although growth in 2023 forecast was slightly higher than estimated in October 2023, it remained low by historical perspective. This is due to the effect of restrictive monetary policy by central banks, in view of the relatively high core inflation compared to targets set by these central banks, impacted by demand pressures in the service sectors. According to the IMF forecast, 2024, global GDP growth should be 3.1%.

GDP in the USA in 2023 increased at an annualized 2.5%, following 2.1% growth for all of 2022. In 2022, the inflation rate rose to a record of 9.1% for the 12 months ended in June 2022, and since then has decreased, to 3.1% in January 2024. The high inflation rate caused the FED to continue to gradually increase the monetary interest rate, from 4.25% in early 2022 to 5.5% at end of July 2023. As of the end of December 2023, this interest remained unchanged. The Purchasing Manager index in the services sector indicated moderate expansion in 2023, while the Purchasing Manager indexes in the industrial sector indicated moderate contraction. The labor market remained tight in 2023, with unemployment rising moderately throughout the year. The unemployment rate at end of December 2023 was at 3.7%, compared to 3.5% at end of December 2022.

On August 1, 2023, rating agency Fitch reduced the long-term credit rating of the USA, from AAA to AA+ with Stable outlook. This was due to the high debt level and expectations of deterioration in the fiscal situation.

On November 10, 2023, Moody's rating agency lowered the USA rating outlook from Stable to Negative, due to increased risk to fiscal stability, emphasizing the need to take measures in order to reduce government expenditure or to increase revenues.

The Euro Zone economy grew in 2023 by an annualized 0.5%, compared to 3.4% growth in 2022. The slow growth in 2023 was due to high inflation and to higher production cost. The inflation rate was more moderate at 2.8% for the 12 months ended January 2024, after reaching 10.6% in October 2022. In view of the high inflation rate, the ECB has gradually raised its monetary interest rate, with interest on deposits reaching 4.0% at end of September 2023. At the end of December 2023, the interest rate remained the same. The Purchasing Manager indexes in the industrial and services sectors indicated contraction in 2023.

GDP in China in 2023 increased at an annualized 5.2%, a little lower than expected, following 3.0% growth for all of 2022. Structural issues, such as high debt and the construction sector crisis, over-shadowed economic activity in 2023.

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

CPI	2023	2022	2021
Dow Jones	13.7	(8.8)	18.7
S&P 500	24.2	(19.4)	26.9
NASDAQ 100	53.8	(33.0)	26.6
DAX	20.3	(12.4)	15.8
FTSE 100	3.8	0.9	14.3
CAC	16.5	(9.5)	28.9
Nikkei	28.2	(9.4)	4.9

Risk events

In 2023, there were no material loss events nor events with potential for material loss.

Major and emerging risks

The Bank's business activity exposes the Bank to various financial and non-financial risks, with potential to impact the Bank's financial results or image. Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes in the competitive landscape, in the consumer environment, in the regulatory environment and in technology, non-financial risks have been evolving.
As part of processes conducted by the Bank to map and identify risk, the Bank reviews major risks, existing or new ones, arising from developments in the Bank's business environment, which may materialize over the coming year and with potential to materially impact the Bank's financial results and stability. The Bank also identifies emerging risks, or risks which may materialize over the longer term, with uncertainty about their nature and impact on the Bank. The 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.

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

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

Strategic business risk incorporates all of the Bank's business operations, also reflecting the risk in the Bank's business environment, including development of material external factors and events which may affect the Bank's strategic business risk and implementation of its strategic plan. The increase in Government expenditure, along with the decrease in Government revenues, may lead to a tax increase across the board or in specific sectors, including excess profit tax imposed on banks. Approval of higher tax rate for banks, which is currently under discussion, should not impact the Bank's stability.

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 regulatory entities, whether in process or completed, which may potentially impact core banking operations. As noted, in the fourth quarter of 2023, regulatory business risk remained unchanged, after being increased in the second quarter of 2023, also reflecting potential business implications for banking operations due to the war.

Macro-economic risk – The state of the local and global economy, significant changes in monetary policy and in interest rate curves, market volatility and changes in prices of financial assets in Israel and world-wide and in real estate prices may potentially impact Bank operations.
In the fourth quarter of 2023, activity slowed down to a certain degree. The security situation is still indicative of further escalation, which impacts local economic activity, as well as the macro-economic environment. In the second half of

2023, the Bank of Israel interest rate remained unchanged at 4.75%. In January 2024, the Bank of Israel lowered its interest rate by 0.25%, to 4.5%. Interest rates are expected to further decrease in 2024. The annual inflation rate was gradually more moderate, at 3% in 2023.

Information security risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk materializes in case of an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.
The likelihood of cyber threat materialization increased somewhat, due to the higher threat level in the economy, and to increased cyber attacks attempted on the banking system, which increased as the war started. The Bank continues to reinforce the defense mechanisms applied, 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.
The Bank's information security team operates fully and continuously throughout the year, constantly improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face. In view of the war, the Bank significantly raised its alert, vigilance and readiness in order to identify and avert any cyber events. The Bank also acts to prevent fraud, by bolstering its monitoring activity to identify any suspect activity in customer accounts.

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, legacy core systems, multitude of banking regulatory requirements and the need to implement technological tools within a short timeframe. The Technology Division operates fully 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 analyzing 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.
At the outset of this war, the Bank focused on maintaining a state of readiness to provide a complete technology resolution for the Bank as a whole, including readiness for deterioration in the security situation, concurrently with development of technology solutions regarding consumer aspects required in emergency, and preparing for operation under a scenario of deterioration in the security situation, along with implementation of material technology projects at the Bank.

Compliance and regulatory risk – Bank business operations are subject to regulation. Compliance risk is the risk of imposition sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with 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.

Environmental risk and climate risk – such risks are part of ESG (Environment, Society and Governance) risk. Environmental risk is evolving risk associated with increased change compared to other risks over time.

Environmental risk – 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 is due to the process of adapting for 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. The Bank is preparing to implement Proper

Conduct of Banking Business Directive 345 "Principles for effective management of climate-related financial risk", issued by the Supervisor of Banks in June 2023 based on guidance in the Basel Committee principles.
In the past year, the Bank has published its TCFD report (Task Force on Climate-Related Financial Disclosures), presenting Bank assessments of effective management of climate risk. This report was created in conformity with the generally accepted global standard for such reporting.

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

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the 2023 Risks Report on the Bank website:
www.mizrahi-tefahot.co.il > About the Bank > Investor Relations > Financial Information.

Independent Auditor's reports

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

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

Events after the balance sheet date

For more information about a dividend distribution with respect to earnings of the fourth quarter of 2023, see chapter "Analysis of structure of assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of the financial statements.

Changes to critical accounting policy and to critical accounting estimates

The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements and below in chapter "Policies and critical accounting estimates".
Below are changes to critical accounting policy and to critical accounting estimates which affect the operating results in reported period:
As from the third quarter of 2023, adjustments were made to components of group-based provision for credit losses, calculated on qualitative basis with respect to impact of the war. For more information see chapter "Policies and critical accounting estimates" below.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in 2023 amounted to NIS 4,910 million, compared to net profit of NIS 4,472 million in 2022 – an increase by 9.8%. Net profit in 2023 reflects return on equity of 19.1%, compared to 20.1% in 2022.

Group net profit in the fourth quarter of 2023 amounted to NIS 1,047 million, compared to NIS 1,087 million in the corresponding period last year – a decrease by 3.7%, primarily due to increase in group-based provision for credit losses with respect to impact of the war, as set forth below. Net profit in the fourth quarter of 2023 reflects annualized return on equity of 15.5%, compared to 18.5% in the corresponding period last year.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in 2023 amounted to NIS 12,486 million, compared to NIS 10,994 million in the corresponding period last year, an increase by 13.6%.
Net interest revenues and non-interest financing revenues(1) in the fourth quarter of 2023 amounted to NIS 2,522 million, compared to NIS 3,150 million in the corresponding period last year, a decrease by 19.9%, primarily due to more moderate increase in CPI and effect of recording fair value with respect to derivative operations.

Net interest revenues and non-interest financing revenues(1) from current operations in 2023, excluding the effect of Union Bank, amounted to NIS 11,679 million, as described below, compared to NIS 9,455 million in the corresponding period last year, an increase by 23.5%.

Net interest revenues and non-interest financing revenues(1) from current operations in the fourth quarter of 2023, amounted to NIS 2,838 million, as described below, compared to NIS 2,899 million in the corresponding period last year, a decrease by 2.1%.

The increase in revenues from current operations in 2023 is due to increase in activity volume – by 5.8% in balance of loans to the public, compared to December 31, 2022, and to increase in Bank of Israel interest rates (as from April 2022) and interest of the US Federal Reserve (as from March 2022).

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

	All of		
	2023	2022	Change in %
Interest revenues, net	11,975	10,240	
Non-interest financing revenues(1)	511	754	
Total financing revenues	**12,486**	**10,994**	**13.6**
Net of:			
Effect of the Consumer Price Index	941	1,144	
Revenues from interest collected with respect to problematic debts	42	67	
Gains (losses) from bonds, shares and real investments	(108)	(3)	
Effect of accounting treatment of derivatives at fair value and others(2)	(68)	331	
Total effects other than from current operations	**807**	**1,539**	
Total financing revenues from current operations	**11,679**	**9,455**	**23.5**

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues, net	2,689	2,959	3,181	3,146	2,952	2,691	2,453	2,144
Non-interest financing revenues(1)	(167)	341	250	87	198	263	176	117
Total financing revenues	**2,522**	**3,300**	**3,431**	**3,233**	**3,150**	**2,954**	**2,629**	**2,261**
Net of:								
Effect of the Consumer Price Index	34	212	387	308	270	267	379	228
Revenues from interest collected with respect to problematic debts	9	13	11	9	12	22	20	13
Gains (losses) from bonds, shares and real investments	(74)	(8)	18	(44)	(12)	25	(48)	32
Effect of accounting treatment of derivatives at fair value and others(2)	(285)	146	53	18	(19)	14	182	154
Total effects other than from current operations	**(316)**	**363**	**469**	**291**	**251**	**328**	**533**	**427**
Total financing revenues from current operations	**2,838**	**2,937**	**2,962**	**2,942**	**2,899**	**2,626**	**2,096**	**1,834**

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

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

	For the year ended December 31			
Operating segment	**2023**	**2022**	**Change amount**	**Change rate (In %)**
Private individuals:				
Households – residential mortgages	2,710	2,550	160	6.3
Households – other	3,789	2,191	1,598	72.9
Private banking	330	172	158	91.9
Total individuals	**6,829**	**4,913**	**1,916**	**39.0**
Business operations:				
Small and micro businesses	2,658	1,858	800	43.1
Medium businesses	647	457	190	41.6
Large businesses	1,189	802	387	48.3
Institutional investors	204	239	(35)	(14.6)
Total business activity	**4,698**	**3,356**	**1,342**	**40.0**
Financial management	533	2,478	(1,945)	(78.5)
Total activity in Israel	**12,060**	**10,747**	**1,313**	**12.2**
Overseas activity	426	247	179	72.5
Total	**12,486**	**10,994**	**1,492**	**13.6**

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

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

	For the year ended December 31		
Linkage segment	**2023**	**2022**	**Change in %**
Israeli currency – non-linked	294,922	286,245	3.0
Israeli currency – linked to the CPI	84,154	80,577	4.4
Foreign currency (including Israeli currency linked to foreign currency)	14,804	16,280	(9.1)
Total	**393,880**	**383,102**	**2.8**
Total including activity overseas	**421,142**	**399,683**	**5.4**

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

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

	For the year ended December 31		For the quarter ended December 31	
Linkage segment	**2023**	**2022**	**2023**	**2022**
Israeli currency – non-linked	2.14	2.11	1.95	2.13
Israeli currency – linked to the CPI	1.62	1.36	1.72	1.59
Foreign currency	0.89	1.13	0.66	0.97
Total	**1.83**	**1.81**	**1.57**	**1.87**

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

Changes in interest spreads:

The increase in interest rate spread for non-linked NIS and for CPI-linked NIS is primarily due to the higher interest rates, resulting in higher margin on deposits compared to the corresponding period last year.

The inflation than in the corresponding period last year, and benefits and relief in financing terms provided to customers due to the Iron Swords War and to higher interest rates, caused a decrease in total interest spread in the fourth quarter of 2023 compared to the corresponding period last year.

In the foreign currency sector, the higher FED interest rate affected the cost of sources. Net revenues from derivative assets are excluded from the interest margins shown above. Adding these revenues would offset the decrease in foreign currency interest spread.

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

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

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

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

Expenses with respect to credit losses for the Group amounted to NIS 1.463 million in 2023, or an annualized rate of 0.45% of total loans to the public, net, compared to expenses with respect to credit losses amounting to NIS 532 million in the corresponding period last year.

Expenses with respect to credit losses for the Group amounted to NIS 295 million in the fourth quarter of 2023, or an annualized rate of 0.36% of total loans to the public, net, compared to expenses with respect to credit losses amounting to NIS 191 million in the corresponding period last year.

The increase in provisions in 2023, and in particular in the third quarter of this year, is mostly due to group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date. For more information see chapter "Policies and critical accounting estimates" below. The increase in provision over the year was also due to growth in Bank's loan portfolio and to higher risk in the market, primarily due to the higher interest rates.

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

	For the year ended December 31		**For the quarter ended December 31**	
	2023	**2022**	**2023**	**2022**
Expenses with respect to credit losses on individual basis (including accounting write-offs):				
Increased expenses	804	543	280	168
Decreased expenses	(352)	(335)	(97)	(100)
Total individual expense for credit losses	**(2)452**	**208**	**(2)183**	**68**
Expenses for credit losses on group basis:				
with respect to residential mortgages	247	99	12	11
Other	764	225	100	112
Total group expense (revenues) for credit losses	**1,011**	**324**	**112**	**123**
Total expenses (revenues) with respect to credit losses	**1,463**	**532**	**295**	**191**
Rate of the expenses (revenues) with respect to credit losses as percentage of total loans to the public, net (annualized):	(1)0.45%	0.17%	0.36%	0.25%
Of which: With respect to commercial loans other than residential mortgages	(1)1.01%	0.39%	0.94%	0.65%
Of which: with respect to residential mortgages	(1)0.12%	0.05%	0.02%	0.02%
Rate of the expenses with respect to individual provision for credit losses, as percentage of total loans to the public, net (annualized):	0.14%	0.07%	0.22%	0.09%

(1) Includes group-based provision for credit losses, recognized primarily in the third quarter of 2023, so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

(2) The increase in individual provision is due to a small number of individual customers, who had been facing difficulties even prior to the war, where a decision has been made to record a specific provision with respect to these customers.

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

Operating segments	For the year ended December 31		For the quarter ended December 31		Rate of expenses with respect to credit losses			
					Annual		Fourth quarter	
	2023	2022	2023	2022	2023	2022	2023	2022
Private individuals:								
Households – residential mortgages	247	99	12	11	0.12	0.05	0.02	0.02
Households – other	324	97	62	45	1.21	0.36	0.93	0.67
Private banking	-	-	-	(1)	-	-	-	(2.61)
Total individuals	**571**	**196**	**74**	**55**	**0.25**	**0.09**	**0.13**	**0.10**
Business operations:								
Small and micro businesses	526	113	154	57	1.56	0.33	1.83	0.67
Medium businesses	106	94	35	41	0.89	0.74	1.18	1.29
Large businesses	154	101	(4)	24	0.43	0.35	(0.04)	0.34
Institutional investors	1	-	(1)	(1)	0.04	-	(0.14)	(0.16)
Total business activity	**787**	**308**	**184**	**121**	**0.94**	**0.40**	**0.87**	**0.62**
Financial management	10	-	2	-	-	-	-	-
Total activity in Israel	**1,368**	**504**	**260**	**176**	**0.43**	**0.17**	**0.33**	**0.23**
Overseas operations	95	28	35	15	1.06	0.43	1.57	0.92
Total	**1,463**	**532**	**295**	**191**	**0.45**	**0.17**	**0.36**	**0.25**

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

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

For more information about analysis of credit risk, see chapter "Credit risk" below and the 2023 Risks Report, available on the Bank website.

Non-interest revenues amounted to NIS 2,805 million in 2023, compared with NIS 3,428 million in 2022, a decrease by NIS 623 million.

Non-interest revenues in the fourth quarter of 2023 amounted to NIS 402 million, compared to NIS 767 million in the corresponding period last year.

For details of non-interest revenue components, see below.

Non-interest financing revenues in 2023 amounted to NIS 511 million, compared to NIS 754 million in 2022.

Non-interest financing expenses in the fourth quarter of 2023 amounted to NIS 167 million, compared to Non-interest financing revenues amounting to NIS 198 million in the corresponding period last year.

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

Commission revenues amounted to NIS 2,028 million in 2023, compared with NIS 2,052 million in 2022, a decrease by 1.2%.

Commission revenues in the fourth quarter of 2023 amounted to NIS 493 million, compared to NIS 505 million in the corresponding period last year – a decrease by 2.4%.

The decrease in commission revenues, as listed in the above table, is primarily due to banking relief and benefits offered to Bank customers in order to assist them during the war and to impact of the war on business activity, including decrease in securities commissions due to decrease in activity volumes, and to decrease in other commissions due to impact of the war on revenues from insurance incidental to mortgages.

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

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Account management	(2)91	113	114	113	106	113	113	108
Conversion differences	83	83	86	97	81	87	83	85
Activities involving securities	60	58	58	65	57	60	67	74
Commissions from financing transactions	107	73	65	82	82	82	71	76
Credit cards	63	71	66	64	72	64	59	65
Credit processing(1)	33	39	36	37	38	40	39	40
Other commissions	56	69	76	70	69	73	76	72
Total commissions	**493**	**506**	**501**	**528**	**505**	**519**	**508**	**520**

	2023	2022
Account management	431	440
Conversion differences	349	336
Activities involving securities	241	258
Commissions from financing transactions	327	311
Credit cards	264	260
Credit processing(1)	145	157
Other commissions	271	290
Total commissions	**2,028**	**2,052**

(1) Includes the following commissions: Handling credit, foreign trade and net revenues from servicing credit portfolios.
(2) including the impact of banking benefits offered to Bank customers in order to assist them during the war.

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

Other revenues in 2023 amounted to NIS 266 million, compared with NIS 622 million in 2022, a decrease by NIS 356 million.

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

Other revenues in the fourth quarter of 2023 amounted to NIS 76 million, compared to NIS 64 million in the corresponding period last year.

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

Operating and other expenses amounted to NIS 5,569 million in 2023, compared with NIS 6,173 million in 2022, a decrease by 9.8%.

Operating and other expenses in the fourth quarter of 2023 amounted to NIS 1,196 million, compared to NIS 1,814 million in the corresponding period last year, a decrease by 34.1%.

For details by operating expense component, see below.

Payroll and associated expenses amounted to NIS 3,544 million in 2023, compared with NIS 4,029 million in 2022, a decrease by 12.0%.

Payroll expenses were primarily affected by employee retirement, termination of some former Union Bank employees, adjustment to variable remuneration components due to the financial results and to the payroll agreement signed with the Employees' Association.

Payroll and associated expenses in the fourth quarter of 2023 amounted to NIS 702 million, compared to NIS 1,194 million in the corresponding period last year – a decrease by 41.2%.

The decrease in payroll expenses in the fourth quarter of 2023 also includes ad-hoc effect of payroll agreements signed.

Maintenance and depreciation expenses amounted to NIS 1,098 million in 2023, compared with NIS 1,012 million in 2022, an increase by 8.5%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 246 million in the fourth quarter of 2023, compared with NIS 281 million in the corresponding period last year – a decrease by 12.5%.

Maintenance and depreciation expenses for buildings and equipment include, *inter alia*, non-recurring asset amortization at the end of 2022 and in previous quarters of 2023. Expenses were also affected by closing of some Union Bank branches as part of the merger.

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

Other expenses amounted to NIS 927 million in 2023, compared with NIS 1,132 million in 2022, a decrease by 18.1%.

Other expenses in the fourth quarter of 2023 amounted to NIS 248 million, compared to NIS 339 million in the corresponding period last year – a decrease by 26.8%.

The decrease in other expenses is primarily due to cost savings arising from the merger of Union Bank into Bank Mizrahi Tefahot.

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

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Cost Income Ratio	38.7	36.6	38.1	37.6	48.8	43.3	45.0	[2]43.2

	For the year ended December 31	
	2023	2022
Cost Income Ratio	37.7	[2]45.2

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

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

Pre-tax profit for the Group amounted to NIS 7,748 million in 2023, compared with NIS 6,963 million in 2022.

Group pre-tax profit in the fourth quarter of 2023 amounted to NIS 1,600 million, compared to NIS 1,714 million in the corresponding period last year.

The provision rate for taxes on profit in 2023 was 34.4%, compared to 33.8% in 2022.

The provision rate for taxes on profit in the fourth quarter of 2023 was 32.4%, compared to 33.8% in the corresponding period last year.

See Note 8 to the financial statements for additional information.

Bank share of after-tax profit of associates in 2023 amounted to profit with respect to associates of NIS 1 million, compared NIS 5 million in the corresponding period last year.

Bank share of after-tax profit of associates – in the fourth quarter of 2023 there was no profit with respect to associates, compared to profit of NIS 1 million in the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2023 amounted to NIS 170 million, compared to NIS 140 million in 2022.

The increase in Bank Yahav profit is due to increase in interest revenues due to increase in activity and to increase in interest rates.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2023 amounted to NIS 34 million, compared to NIS 48 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank amounted to NIS 4,910 million in 2023, compared with NIS 4,472 million in 2022.

Net profit attributable to shareholders of the Bank in the fourth quarter of 2023 amounted to NIS 1,047 million, compared to NIS 1,087 million in the corresponding period last year.

Other comprehensive income – Changes to the Bank's shareholders' equity are due to Group net profit, as well as to other changes that do not impact net profit, including changes to fair value of bonds available for sale, and changes to actuarial obligations with respect to benefits to Bank employees, net of tax effect. These effects increased the Bank's shareholders' equity in 2023 by NIS 104 million, compared to decrease by NIS 211 million in the corresponding period last year.

These effects increased the Bank's shareholders' equity in the fourth quarter of 2023 by NIS 99 million, compared to NIS 38 million in the corresponding period last year.

For details see Note 10 to the financial statements.

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

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

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net profit return on equity	15.5	16.8	22.0	22.4	18.5	20.8	19.4	[(5)]21.9
Ratio of Tier I equity to risk components at end of quarter	10.32	10.12	10.23	10.12	9.94	9.92	10.00	10.01
Liquidity coverage ratio (Quarterly)	131	138	128	126	118	119	120	120
Leverage ratio at end of quarter	5.83	5.78	5.73	5.53	5.42	5.26	5.23	5.31

	For the year ended December 31	
	2023	2022
Net profit return on equity	19.1	[(5)]20.1

(1) Annualized return.

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

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

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

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

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

	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Basic earnings per share	4.06	4.27	5.43	5.32	4.23	4.59	4.11	4.50
Diluted earnings per share	4.04	4.24	5.41	5.30	4.21	4.56	4.09	4.43
Dividends per share (in Agorot)	64	190	159	127	137	123	-	106

	For the year ended December 31	
	2023	2022
Basic earnings per share	19.07	17.47
Diluted earnings per share	19.00	17.38
Dividends per share (in Agorot)	540	366

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

Assets and liabilities

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

	December 31		
	2023	2022	Change in %
Total assets	448,204	428,292	4.6
Cash and deposits with banks	86,550	93,673	(7.6)
Loans to the public, net	325,346	307,472	5.8
Securities	23,071	15,144	52.3
Buildings and equipment	1,531	1,503	1.9
Deposits from the public	358,553	344,514	4.1
Deposits from banks	4,571	6,994	(34.6)
Bonds and subordinated notes	37,070	33,287	11.4
Equity	27,461	23,780	15.5

Cash and deposits with banks – the balance of cash and deposits with banks decreased in 2023 by NIS 7.1 billion, as part of on-going management of Bank liquidity, against similar increase in securities (primarily Government bonds).

Loans to the public, net – loans to the public, net as of December 31, 2023 accounted for 73% of total assets, compared to 72% at the end of 2022. Loans to the public, net increased in 2023 by NIS 17.9 billion, an increase by 5.8%.

For more information about analysis of on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to residential mortgages, see chapter "Risks" below and the 2023 Risks Report, available on the Bank website.

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

	Balance as of December 31		Change	Percentage of total loans to the public, net as of December 31	
Linkage segment	**2023**	**2022**	**in %**	**2023**	**2022**
Israeli currency					
Non-linked	226,844	215,424	5.3	69.7	70.1
CPI-linked	80,674	76,228	5.8	24.8	24.8
Foreign currency, including linked to foreign currency	17,828	15,820	12.7	5.5	5.2
Total	**325,346**	**307,472**	**5.8**	**100.0**	**100.0**

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

	Balance as of December 31		Change rate
	2023	**2022**	**(In %)**
Private individuals:			
Households – residential mortgages	205,433	195,820	4.9
Households – other	26,768	27,064	(1.1)
Private banking	101	153	(34.0)
Total individuals	**232,302**	**223,037**	**4.2**
Business operations:			
Small and micro businesses	33,612	34,152	(1.6)
Medium businesses	11,871	12,704	(6.5)
Large businesses	35,792	28,519	25.5
Institutional investors	2,844	2,556	10.8
Total business activity	**84,119**	**77,931**	**7.9**
Overseas activity	8,925	6,504	37.2
Total	**325,346**	**307,472**	**5.8**

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

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

Reported amounts (NIS in millions)	Credit risk[1]							
	As of December 31, 2023				As of December 31, 2022			
	Commercial	Residential	Individual	Total	Commercial	Residential	Individual	Total
Credit risk at performing credit rating[2]								
On-balance sheet credit risk	91,029	201,895	26,226	319,150	84,735	193,439	25,993	304,167
Off-balance sheet credit risk[3]	66,002	12,068	15,284	93,354	51,915	11,349	14,475	77,739
Total credit risk at performing credit rating	**157,031**	**213,963**	**41,510**	**412,504**	**136,650**	**204,788**	**40,468**	**381,906**
Credit risk other than at performing credit rating								
A. Non-problematic	4,018	2,609	337	6,964	2,949	2,072	324	5,345
B. Problematic accruing	2,262	-	195	2,457	1,205	-	167	1,372
C. Problematic non-accruing	1,487	2,153	74	3,714	1,228	1,329	55	2,612
Total on-balance sheet credit risk other than at performing credit rating	**7,767**	**4,762**	**606**	**13,135**	**5,382**	**3,401**	**546**	**9,329**
Off-balance sheet credit risk[3] other than at performing credit rating	1,540	-	40	1,580	1,412	-	36	1,448
Total credit risk other than at performing credit rating	**9,307**	**4,762**	**646**	**14,715**	**6,794**	**3,401**	**582**	**10,777**
Of which: Accruing debts, in arrears 90 days or longer	73	-	71	144	69	-	44	113
Total credit risk, including risk to the public[4]	**166,338**	**218,725**	**42,156**	**427,219**	**143,444**	**208,189**	**41,050**	**392,683**
Non-performing assets[5]	**1,487**	**2,153**	**74**	**3,714**	**1,228**	**1,329**	**55**	**2,612**

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) On- and off-balance sheet credit risk, including with respect to derivatives. Of which: Debts, bonds, securities loaned or purchased in resale agreements.
(5) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding residential mortgages), credit risk in the construction and real estate economic sector in Israel and residential mortgage risk, see chapter "Credit risk" below and chapter "Credit risk" of the 2023 Risks Report available on the Bank website. For more information see also Notes 13 and 30 to the financial statements.

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

	As of December 31, 2023				As of December 31, 2022			
	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Analysis of quality of loans to the public								
Non-accruing credit as percentage of total loans to the public	1.53	1.04	0.28	1.12	1.37	0.68	0.21	0.83
Non-accruing credit in arrears 90 days or longer as percentage of total loans to the public	1.60	1.04	0.54	1.16	1.45	0.68	0.37	0.87
Problematic credit as percentage of total loans to the public	3.89	1.04	1.00	1.87	2.76	0.68	0.84	1.27
Credit not at performing credit rating as percentage of total loans to the public	8.10	2.30	2.26	3.99	6.19	1.73	2.06	3.01
Analysis of expenses with respect to credit losses for the reported period								
Expenses with respect to credit losses as percentage of average balance of loans to the public	0.96	0.12	1.21	0.45	0.41	0.05	0.38	0.18
Net accounting write-offs as percentage of average balance of loans to the public	0.17	-	0.50	0.09	0.25	-	0.26	0.09
Analysis of provision for credit losses with respect to loans to the public								
Provision for credit losses as percentage of total loans to the public	2.52	0.56	2.62	1.30	1.94	0.46	1.93	1.00
Provision for credit losses as percentage of total loans to the public non-accruing	165.0	53.4	948.7	115.6	141.7	67.9	930.9	120.5
Provision for credit losses as percentage of total loans to the public non-accruing or in arrears 90 days or longer	157.2	53.4	484.1	111.3	133.9	67.9	517.2	115.4
Expense (revenue) rate with respect to credit losses from net accounting write-offs	5.76	-	2.42	5.06	1.66	-	1.45	1.98

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

	2023		2022	
Credit risk per borrower (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	8.0	69.2	8.5	69.8
150-600	17.4	18.3	18.4	17.9
600-2,000	33.3	11.1	36.2	11.1
Above 2,000	41.3	1.4	36.9	1.2

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

	2023		2022	
Economic sector	Risk	Percentage of total risk	Risk	Percentage of total risk
	On-balance sheet credit[(1)]	On-balance sheet credit	On-balance sheet credit[(1)]	On-balance sheet credit
Individuals (including residential mortgages)	233,263	71.5	223,238	72.4
Construction and real estate	37,824	11.5	33,754	10.9
Commerce	12,873	3.9	11,283	3.7
Financial services	10,973	3.4	10,816	3.5
Industry	10,298	3.2	9,765	3.2
Other	21,140	6.5	19,446	6.3
Total	**326,371**	**100.0**	**308,302**	**100.0**

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

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investments in public bonds. Off-balance sheet credit risk includes guarantees and transactions in off-balance sheet instruments, commitments to extend credit and un-utilized credit facilities. Total credit risk to the public for the Bank Group as of December 31, 2023 amounted to NIS 427 billion, compared to NIS 393 billion as of December 31, 2022 – an increase by 8.7%.

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

	December 31		Change in % compared to December 31
	2023	2022	2022
Off-balance sheet financial instruments other than derivatives:			
Unutilized debitory account and other credit facilities in accounts			
On-call, un-utilized	31,625	21,772	45.3
Guarantees to home buyers	14,612	19,069	(23.4)
Irrevocable commitments for loans approved but not yet granted	24,815	21,029	18.0
Unutilized revolving credit card facilities	12,416	11,730	5.8
Commitments to issue guarantees	12,514	8,122	54.1
Guarantees and other commitments	13,541	12,881	5.1
Loan guarantees	3,445	3,531	(2.4)
Documentary credit	540	315	71.4
Derivative financial instruments(1):			
Total par value of derivative financial instruments	371,739	299,335	24.2
(On-balance sheet) assets with respect to derivative instruments	6,282	5,789	8.5
(On-balance sheet) liabilities with respect to derivative instruments	7,367	5,214	41.3

(1) Includes forward transactions, swaps, options and credit derivatives. For more information see Note 28.

Securities – investment in securities increased in 2023 by NIS 7.9 billion. The increase in investment in securities is under asset and liability management by the Bank.

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

	Carrying amount	Amortized cost (for shares – cost)	Provision for credit losses	Gain from fair value adjustments	Loss from fair value adjustments	Fair value(1)
						December 31, 2023
Bonds held to maturity	3,600	3,600	-	2	(134)	3,468
Bonds available for sale	11,373	11,891	(8)	(2)82	(2)(592)	11,373
Investment in shares not held for trading	602	549	-	(3)76	(3)(23)	602
Securities held for trading	7,496	7,542	-	(3)10	(3)(56)	7,496
Total securities	**23,071**	**23,**582	**(8)**	**170**	**(805)**	**22,939**
						December 31, 2022
Bonds held to maturity	3,514	3,514	-	-	(152)	3,362
Bonds available for sale	8,034	8,694	-	(2)66	(2)(726)	8,034
Investment in shares not held for trading	632	584	-	(3)62	(3)(14)	632
Securities held for trading	2,964	3,018	-	(3)5	(3)(59)	2,964
Total securities	**15,144**	**15,810**	**-**	**133**	**(951)**	**14,992**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(3) Charged to statement of profit and loss but not yet realized.

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

	Balance as of December 31		
	2023	2022	Change in %
Israeli currency			
Non-linked	12,980	6,645	95.3
CPI-linked	4,330	2,498	73.3
Foreign currency (including linked to foreign currency)	5,143	5,349	(3.9)
Non-monetary items	618	652	(5.2)
Total	**23,071**	**15,144**	**52.3**

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

	Carrying amount as of	
	December 31, 2023	December 31, 2022
Government bonds:		
Government of Israel	19,452	10,732
US Government	583	1,457
Total Government bonds	**20,035**	**12,189**
Bonds of financial institutions in Israel:		
Total bonds of financial institutions in Israel	**776**	**774**
Bonds of banks in developed nations:		
USA	104	71
South Korea	74	119
Other	73	72
Total bonds of banks in developed nations	**251**	**262**
Corporate bonds (by economic sector):		
Rental property	527	500
Power, gas, steam and air conditioning	193	165
Mining and excavation	86	95
Construction	124	97
Industrial – chemical industry	58	57
Other	347	298
Total corporate bonds	**1,335**	**1,212**
Asset-backed corporate bonds (ABS)		
Mining and excavation	56	53
Others	-	2
Total asset-backed corporate bonds (ABS)	**56**	**55**
Shares and other securities		
Investment in shares not held for trading	602	632
Of which: Shares for which no fair value is available[(1)]	350	389
Shares and other securities held for trading	16	20
Total shares and other securities	**618**	**652**
Total securities	**23,071**	**15,144**

(1) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

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

Buildings and equipment – The balance of buildings and equipment decreased in 2023 by NIS 28 million. The increase in buildings and equipment is due to new investments, primarily investments in technology and in the Bank campus in Lod. Conversely, current change in depreciation and non-recurring asset write-down.

Investments and expenses with respect to IT

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

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

	For the year ended December 31 (reported amounts)							
	2023				2022			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Expenses with respect to payroll and benefits [1]	386	78	9	473	333	64	8	405
Expenses with respect to use licenses not capitalized to assets [2]	190	18	-	208	164	8	-	172
Expenses with respect to outsourcing [3]	155	4	11	170	329	9	9	347
Expenses with respect to depreciation [4]	239	53	-	292	251	59	-	310
Other expenses [5]	35	6	-	41	75	13	-	88
Total expenses	**1,005**	**159**	**20**	**1,184**	**1,152**	**153**	**17**	**1,322**

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

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

	For the year ended December 31 (reported amounts)							
	2023				2022			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Cost with respect to payroll and benefits [1]	16	-	-	16	13	-	-	13
Cost with respect to purchase of use licenses [2]	66	47	-	113	72	28	-	100
Cost with respect to outsourcing [3]	130	-	-	130	141	-	-	141
Total	**212**	**47**	**-**	**259**	**226**	**28**	**-**	**254**

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

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

	For the year ended December 31 (reported amounts)							
	2023				2022			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total amortized balance	592	93	-	685	616	108	1	725
Of which: With respect to payroll and benefits	40	-	-	40	44	-	-	44

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

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

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

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

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

Deposits from the public – these account for 80% of total consolidated balance sheet as of December 31, 2023 and as of December 31, 2022. In 2023, deposits from the public increased by NIS 14.0 billion, an increase by 4.1%. Deposits from the public include deposits from retail customers, corporations, financial institutions and others.

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

	Balance as of December 31			Percentage of total deposits from the public, net as of December 31	
Linkage segment	**2023**	**2022**	**Change in %**	**2023**	**2022**
Israeli currency					
Non-linked	267,198	260,411	2.6	74.5	75.6
CPI-linked	23,468	21,767	7.8	6.6	6.3
Foreign currency, including linked to foreign currency	67,887	62,336	8.9	18.9	18.1
Total	**358,553**	**344,514**	**4.1**	**100.0**	**100.0**

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

	As of December 31		Change rate
	2023	**2022**	**(In %)**
Private individuals:			
Households – other	133,009	125,823	5.7
Private banking	27,746	25,755	7.7
Total individuals	**160,755**	**151,578**	**6.1**
Business operations:			
Small and micro businesses	56,791	55,805	1.8
Medium businesses	14,270	13,570	5.2
Large businesses	35,612	39,636	(10.2)
Institutional investors	78,904	75,938	3.9
Total business activity	**185,577**	**184,949**	**0.3**
Overseas activity	[(1)]12,221	7,987	53.0
Total	**358,553**	**344,514**	**4.1**

(1) Increase in deposits due, inter alia, to expansion of the range of recruitment channels.

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

	For the year ended December 31	
	2023	**2022**
Maximum deposit (NIS in millions)		
Up to 1	105,025	99,561
Over 1 to 10	93,024	86,771
Over 10 to 100	45,648	46,517
Over 100 to 500	37,466	35,348
Above 500	77,390	76,317
Total	**358,553**	**344,514**

Deposits from banks – The balance of deposits from banks as of December 31, 2023 amounted to NIS 4.6 billion, a decrease by NIS 2.4 billion compared to December 31, 2022.

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

Bonds and subordinated notes – The balance of bonds and subordinated notes as of December 31, 2023 amounted to NIS 37.1 billion, an increase by NIS 3.8 billion compared to 2022. In 2023, bonds and subordinated notes were affected by issuance of new series (67,68) amounting to NIS 4.6 billion, by issuance of commercial paper amounting to NIS 2.5 billion and by issuance of CoCo contingent subordinated notes (Series 69) amounting to NIS 0.6 billion, along with redemption of series (48,51) amounting to NIS 3.3 billion, as well as by the higher CPI. For more information see chapter "Developments in financing sources" above.
For more information about balances of Bank Group assets and liabilities in the interim periods, see multi-quarter information in appendixes to the annual report.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of December 31, 2023 amounted to NIS 27.5 billion, compared to NIS 23.8 billion as of December 31, 2022, an increase by 15.5%.

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

	As of December 31		Rate of Change
	2023	2022	(In %)
Share capital and premium[(1)]	3,556	3,519	1.1
Capital reserve from benefit from share-based payment transactions	119	99	20.2
Cumulative other comprehensive loss[(2)(3)]	(410)	(514)	(20.2)
Retained earnings[(4)]	24,196	20,676	17.0
Total	**27,461**	**23,780**	**15.5**

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

The ratio of shareholders' equity to total assets for the Group as of December 31, 2023 was 6.13%, compared to 5.55% as of the end of 2022.

Capital adequacy

Supervisory requirement

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

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

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

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of December 31, 2023, the Bank had no capital instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event).

For more information about issue of bonds and contingent subordinated notes (Contingent Convertibles – CoCo) in 2023, see chapter "Developments in financing sources" above.

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

An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the dates of financial statements, except for residential mortgages, which are subject to relief provided in the interim directive for addressing the Corona Virus crisis.

Consequently, the Bank's current required minimum ratio of Tier I equity ratio and minimum total capital ratio as of the report date are 9.60% and 12.50%, respectively (to which appropriate safety margins were added).

Capital planning at the Bank

The Bank prepares a detailed, multi-annual capital planning forecast, taking the following into consideration: Expected growth rate of risk assets and profitability, the strategic plan, dividend distribution policy, capital and leverage targets, appropriate safety margins and other factors.

The Bank regularly monitors actual vs. forecast results, and revises the forecast as needed, considering any required action to comply with the specified capital targets.

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

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

Consequently, the Bank stipulated that the Bank's target Tier I capital for capital planning would be as required by directives of the Supervisor of Banks, as noted above, including the capital requirement with respect to balance of residential mortgages, plus appropriate safety margins. The Bank’s Board of Directors has specified, in capital management policy, in internal planning processes and considering the aforementioned stress scenarios and discussions held with the Supervisor of Banks as part of risk assessment processes, an internal target tier I equity ratio of at least 9.60%.

For more information see the 2023 Risks Report available on the Bank website.

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

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

Changes to the risk-free interest curve would affect the capital reserve with respect to bonds available for sale, as well as the capital reserve from adjustments for actuarial changes, which are part of supervisory capital. Accordingly, a 1% increase in risk-free interest rate would affect supervisory capital by reduction of 0.03% in tier I equity ratio.

Israel's rating affects capital ratios, primarily with respect to exposure to Government of Israel, to Israeli banks, to institutional investors and to public sector entities. According to Bank policy, the effective rating is the one provided by S&P. The Bank considers that lowering Israel's rating by one notch would result in a decrease by 0.11% in tier I equity ratio.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 25 to the 2023 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend) below.

For more information see Note 25 to the financial statements.

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

	As of December 31	
	2023	2022
Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	28,434	25,072
Tier I capital	28,434	25,072
Tier II capital	8,366	8,015
Total capital	36,800	33,087
Weighted risk asset balances		
Credit risk	252,842	234,383
Market risks	1,957	1,301
Operational Risk	20,641	16,567
Total weighted risk asset balances	275,440	252,251

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

	As of December 31	
	2023	2022
Ratio of Tier I equity to risk components	10.32	9.94
Ratio of Tier I capital to risk components	10.32	9.94
Ratio of total capital to risk components	13.36	13.12
Minimum Tier I equity ratio required by Supervisor of Banks	9.60	9.60
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.50	12.50
2. Significant subsidiaries (in %)		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	11.90	10.51
Ratio of total capital to risk components	14.17	13.45
Minimum Tier I equity ratio required by Supervisor of Banks	9.00	9.00
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.50	12.50

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

	As of December 31, 2023		As of December 31, 2022	
Exposure group	**Weighted risk asset balances**	**Capital requirement[(1)]**	**Weighted risk asset balances**	**Capital requirement[(1)]**
Debts of sovereigns	289	36	29	4
Debts of public sector entities	388	49	371	46
Debts of banking corporations	1,922	240	1,748	219
Debts of securities companies	963	120	928	116
Debts of corporations	89,411	11,176	78,486	9,811
Debts secured by commercial property	5,428	679	5,226	653
Retail exposures to individuals	21,098	2,637	20,935	2,617
Loans to small businesses	10,194	1,274	10,209	1,276
Residential mortgages	111,611	13,951	106,008	13,251
Other assets	10,256	1,282	9,213	1,152
Total credit risk	**251,560**	**31,444**	**233,153**	**29,145**

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

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

	December 31, 2023		December 31, 2022	
Exposure group	Weighted risk asset balances	Capital requirement[1]	Weighted risk asset balances	Capital requirement[1]
Market risk	1,957	245	1,301	163
CVA risk[2]	1,282	160	1,230	154
Operational Risk[3]	20,641	2,580	16,567	2,071
Total	23,880	2,985	19,098	2,388
Total risk assets	275,440	34,429	252,251	31,533

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

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

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

Leverage ratio

The Bank applies 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.

In the Supervisor of Banks' circular dated December 20, 2023, the effect of this relief was extended through December 31, 2025. A banking corporation applying this relief at the time would be required to resume the required leverage ratio prior to the interim directive within two quarters, such that upon expiration of the interim directive, the banking corporation would be subject to a minimum leverage ratio based on the actual leverage ratio or the minimum ratio applicable to the banking corporation prior to the interim directive, whichever is lower.

The Bank's leverage ratio as of December 31, 2023 is 5.83%, compared to 5.42% as of December 31, 2022.

For more information see Note 25 to the financial statements.

Below is the Bank's leverage ratio:

	As of December 31	
	2023	2022
1. Consolidated data		
Tier I capital	28,434	25,072
Total exposure	487,483	463,010
		In %
Leverage ratio	5.83	5.42
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	6.68	6.08
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50

Dividends

Dividend distribution policy

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

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

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

On November 12, 2023, the Supervisor of Banks directed the banking system, due to the war forced on Israel on October 7, and the resulting significant change in economic conditions, downward revision of growth forecasts, volatility in exchange rates and on financial markets in Israel and expected increase in credit risk, the level of uncertainty was higher and therefore banks must consider, when reviewing their capital planning and deciding on dividend distributions, the war's effect on economic conditions and the implications thereof. This is so as to ensure that sufficient capital buffers are in place to address the various risks, to enable assistance to bank customers, including by extending credit to customers with repayment capacity, both as part of the support for economic activity and as part of the recovery and development efforts to follow the war period.
On March 5, 2024, the Supervisor of Banks issued a letter regarding the need to continue review of the dividend distribution policy and execution of share buy backs in the near term, due to the prolonged war and its impact on the economy.

Dividend distribution

Dividends declared

Below is information about dividend distributions by the Bank since 2021 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)	(In %)	(NIS in millions)
August 16, 2021	August 31, 2021	188.99	(1)0.30	483.0
November 15, 2021	November 30, 2021	293.47	(2)0.30	752.7
Total dividend distributions in 2021(3)				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022(4)				**940.9**
March 13, 2023	March 28, 2023	126.79	0.30	326.1
May 16, 2023	June 1, 2023	159.35	0.30	410.1
August 14, 2023	August 29, 2023	190.10	0.35	489.3
November 27, 2023	December 12, 2023	63.86	0.15	164.7
Total dividend distributions in 2023(5)				**1,390.2**

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(4) Total dividends distributed with respect to 2022 earnings – NIS 995.4 million.
(5) Total dividends distributed with respect to 2023 earnings – NIS 1,064.1 million.

Dividends declared with respect to earnings in the fourth quarter of 2023

On March 11, 2024, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 209.4 million, or 20% of earnings in the fourth quarter of 2023, given the state of uncertainty in the economy regarding, inter alia, the continued war and the extent of its effects, and so as to enable further assistance to Bank customers, including by way of extending credit to customers with repayment capacity, and further to the Supervisor of Banks' letter on this matter, dated March 5, 2024.

The dividends are 811.08% of issued share capital, i.e. NIS 0.8111 per NIS 0.1 par value share. The effective date for dividends payment is March 19, 2024 and the payment date is March 28, 2024. The final dividends per share is subject to changes due to realized convertible of the Bank.

Other off-balance sheet activity

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

	As of December 31		Change rate
	2023	**2022**	**(In %)**
Securities[1]	550,807	497,639	10.7
Assets of provident funds for which the Group provides operating services	147,852	129,887	13.8
Assets held in trust by Bank Group	110,721	81,610	35.7
Assets of mutual funds for which the Group provides operating services	14,019	12,663	10.7
Other assets under management[2]	20,561	21,201	(3.0)

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

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

Description of Bank Group business by supervisory operating segment

Supervisory operating segments

According to the public reporting directive regarding supervisory operating segments, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for customers (annual sales or annual revenues).

Supervisory operating segments are divided into operating segments of individuals and operating segments of business customers other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

The Bank's operating segment using the "management approach" are based on customer assignment to the responsible organizational unit in the elapsed period.

However, customer attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 29 to the financial statements.

The attributes specified by management for customer assignment to the responsible division are highly correlated with supervisory definitions.

However, in some cases it may be that by the "management approach", the final assignment of the customer is based on other parameters, such as: A particular unit specializing in customer activity type or experienced gained working with the customer, which provides business and service advantages to assigning the customer to that specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

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

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

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

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

	Net profit		Percentage of total net profit	
	For the year ended December 31		For the year ended December 31	
	2023	2022	2023	2022
Private individuals:				
Households – residential mortgages	1,107	1,071	22.5	23.9
Households – other	1,038	141	21.1	3.2
Private banking	216	113	4.4	2.5
Total individuals	**2,361**	**1,325**	**48.1**	**29.6**
Business operations:				
Small and micro businesses	1,008	683	20.5	15.3
Medium businesses	298	131	6.1	2.9
Large businesses	629	334	12.8	7.5
Institutional investors	54	58	1.1	1.3
Total business activity	**1,989**	**1,206**	**40.5**	**27.0**
Financial management	389	1,830	7.9	40.9
Total activity in Israel	**4,739**	**4,361**	**96.5**	**97.5**
Overseas activity	171	111	3.5	2.5
Total	**4,910**	**4,472**	**100.0**	**100.0**

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

Household Segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

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

Differences between management approach and supervisory definition

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

Developments in the household segment in this period

- In 2023, public efforts continued to promote entry of non-bank entities into competition for the household segment, and to increase competition for consumer credit. Along with the Increased Competition and Reduced Concentration in Israeli Banking Law, there are several legislative and regulatory efforts under way, resulting in increased competition in this segment, including:
  - operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, which is making progress in accordance with the specified milestones.
  - Improving consumer ability to compare, through Bank of Israel reforms to increase transparency:
  - Reform designed to increase information transparency for mortgage customers, launched in September 2022.
  - Reform to increase interest rate transparency in the commercial segment, launched in October 2022. In February 2023, the information provided as part of this reporting was expanded to include breakdowns and other interest calculations. In July 2023, additional information was added for interest rates with respect to residential mortgages.
- In 2023, branch closures continued more moderately than in previous years, as did elimination of teller stations at branches of some banks, with customers referred to digital solutions. In this regard, and in conformity with legislation dated August 2016 of the Banking Law (Licensing) (Amendment no. 22), 2016 – a banking corporation wishing to close a permanent branch is required to obtain the Supervisor of Banks' approval, after submitting a written, justified request to do so.
- As for credit cards, regulatory changes continued, derived *inter alia* from implementation of the Increased Competition and Reduced Concentration in the Banking Market in Israel Law. In 2019, credit card issuers were separated from the banks, and in early 2023, the recommendation by the Committee for Review of Competition in the Credit Market was approved, for CAL be separated from Israeli Discount Bank no later than end of 2025. In March 2023, Clal Insurance closed the acquisition of max credit card company.

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

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

Analysis of operating results in the household segment

	For the year ended December 31					
	2023			2022		
	NIS in millions					
	Other	Residential mortgages	Total	Other	Residential mortgages	Total
Profit and profitability						
Total interest revenues, net	3,789	2,710	6,499	2,191	2,550	4,741
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	686	119	805	730	155	885
Total revenues	**4,475**	**2,829**	**7,304**	**2,921**	**2,705**	**5,626**
Expenses with respect to credit losses	324	247	571	97	99	196
Operating and other expenses	2,348	893	3,241	2,444	988	3,432
Profit before provision for taxes	1,803	1,689	3,492	380	1,618	1,998
Provision for taxes	621	582	1,203	129	547	676
After-tax profit	**1,182**	**1,107**	**2,289**	**251**	**1,071**	**1,322**
Net profit (loss):						
Attributable to non-controlling interests	(144)	-	(144)	(110)	-	(110)
Attributable to shareholders of the banking corporation	**1,038**	**1,107**	**2,145**	**141**	**1,071**	**1,212**
Balance sheet – key items:						
Loans to the public (end balance)	27,444	206,562	234,006	27,559	196,717	224,276
Loans to the public, net (end balance)	26,768	205,433	232,201	27,064	195,820	222,884
Deposits from the public (end balance)	133,009	-	133,009	125,823	-	125,823
Average balance of loans to the public	27,009	202,312	229,321	25,473	188,681	214,154
Average balance of deposits from the public	129,214	-	129,214	122,240	-	122,240
Average balance of risk assets	22,128	120,257	142,385	23,125	108,389	131,514
Credit spreads and deposit spreads:						
Margin from credit granting operations	1,073	2,335	3,408	1,011	2,358	3,369
Margin from activities of receiving deposits	2,662	-	2,662	1,164	-	1,164
Other	54	375	429	16	192	208
Total interest revenues, net	**3,789**	**2,710**	**6,499**	**2,191**	**2,550**	**4,741**

Net profit attributable to the household segment in 2023 amounted to NIS 2,145 million, compared to NIS 1,212 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Net profit attributable to residential mortgage operations in the household segment in 2023 amounted to NIS 1,107 million, compared to NIS 1,023 million in the corresponding period last year.

Net interest revenues from residential mortgage operations amounted to NIS 2,710 million, compared to NIS 2,550 million in the corresponding period last year. The increase was primarily due to increase in residential mortgages. Conversely, expenses with respect to credit losses amounted to NIS 247 million, compared to expenses amounting to NIS 99 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

Net profit attributable to household operations (other than residential mortgages) in 2023 amounted to NIS 1,038 million, compared to a profit of NIS 189 million in the corresponding period last year.

The increase is primarily due to increase in interest revenues, net, which amounted to NIS 3,789 million, compared to NIS 2,191 million in the corresponding period last year, primarily due to increase in deposits and to higher Bank of Israel interest rates. The increase was partially offset by expenses with respect to credit losses, which in 2023 amounted to NIS 324 million, compared to expenses of NIS 97 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

Operating and other expenses in the household segment amounted to NIS 3,241 million, compared to NIS 3,432 million in the corresponding period last year. The decrease was primarily due to completion of the Union Bank merger into Bank Mizrahi Tefahot, which resulted in termination of some employees of the former Union Bank.

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

Private Banking Segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

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

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

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

Differences between management approach and supervisory definition

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

Developments in the private banking segment in this period

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

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

Analysis of operating results in the private banking segment

	For the year ended December 31	
	2023	2022
		NIS in millions
Profit and profitability		
Total interest revenues, net	330	172
Non-interest financing revenues	-	-
Commissions and other revenues	18	17
Total revenues	**348**	**189**
Expenses with respect to credit losses	-	-
Operating and other expenses	19	18
Profit before provision for taxes	329	171
Provision for taxes	113	58
Net profit	**216**	**113**
Balance sheet – key items:		
Loans to the public (end balance)	102	154
Loans to the public, net (end balance)	101	153
Deposits from the public (end balance)	27,746	25,755
Average balance of loans to the public	120	143
Average balance of deposits from the public	26,941	23,325
Average balance of risk assets	47	66
Credit spreads and deposit spreads:		
Margin from credit granting operations	-	1
Margin from activities of receiving deposits	330	167
Other	-	4
Total interest revenues, net	**330**	**172**

Net profit attributable to the private banking segment in 2023 amounted to NIS 216 million, compared to NIS 113 million in the corresponding period last year. The increase was due to increase in interest revenues, net, primarily due to increase in business volume and to higher Bank of Israel interest rates.

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

Small and micro business segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

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

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

Differences between management approach and supervisory definition

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

Developments in the small and micro business segment in this period

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

Changes to customer attributes in this segment

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

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

Analysis of operating results in the small and micro business segment

	For the year ended December 31	
	2023	2022
	NIS in millions	
Profit and profitability		
Total interest revenues, net	2,658	1,858
Non-interest financing revenues	-	-
Commissions and other revenues	584	564
Total revenues	**3,242**	**2,422**
Expenses with respect to credit losses	526	113
Operating and other expenses	1,156	1,261
Profit before provision for taxes	1,560	1,048
Provision for taxes	537	355
Profit after tax	**1,023**	**693**
Net profit attributed to non-controlling interests	(15)	(10)
Net profit attributable to shareholders of the banking corporation	**1,008**	**683**
Balance sheet – key items:		
Loans to the public (end balance)	34,947	35,147
Loans to the public, net (end balance)	33,612	34,152
Deposits from the public (end balance)	56,791	55,805
Average balance of loans to the public	34,380	33,520
Average balance of deposits from the public	55,604	54,974
Average balance of risk assets	32,948	30,550
Credit spreads and deposit spreads:		
Margin from credit granting operations	1,372	1,311
Margin from activities of receiving deposits	1,160	480
Other	126	67
Total interest revenues, net	**2,658**	**1,858**

Net profit attributable to the small and micro businesses segment in 2023 amounted to NIS 1,008 million, compared to NIS 683 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Financing revenues, net amounted to NIS 2,658 million, compared to NIS 1,858 million in the corresponding period last year; the increase was primarily due to increase in loans and deposits and to higher Bank of Israel interest rates. Conversely, expenses with respect to credit losses increased, amounting to NIS 526 million, compared to expenses of NIS 113 million in the corresponding period last year. The increase is primarily due to increase in the group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

Operating and other expenses amounted to NIS 1,156 million, compared to NIS 1,261 million in the corresponding period last year. The decrease was primarily due to completion of the Union Bank merger into Bank Mizrahi Tefahot, which resulted in termination of some employees of the former Union Bank.

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

Medium business segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

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

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

Differences between management approach and supervisory definition

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

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

Analysis of operating results in the medium business segment

	For the year ended December 31	
	2023	2022
	NIS in millions	
Profit and profitability		
Total interest revenues, net	647	457
Non-interest financing revenues	-	-
Commissions and other revenues	101	99
Total revenues	**748**	**556**
Expenses with respect to credit losses	106	94
Operating and other expenses	188	264
Profit before provision for taxes	454	198
Provision for taxes	156	67
Net profit	**298**	**131**
Balance sheet – key items:		
Loans to the public (end balance)	12,171	12,902
Loans to the public, net (end balance)	11,871	12,704
Deposits from the public (end balance)	14,270	13,570
Average balance of loans to the public	12,265	11,526
Average balance of deposits from the public	12,705	14,044
Average balance of risk assets	14,545	13,610
Credit spreads and deposit spreads:		
Margin from credit granting operations	388	337
Margin from activities of receiving deposits	210	97
Other	49	23
Total interest revenues, net	**647**	**457**

Net profit attributable to the medium businesses segment in 2023 amounted to NIS 298 million, compared to NIS 131 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net. Interest revenues, net amounted to NIS 647 million, compared to NIS 457 million in the corresponding period last year. The increase was primarily due to increase in loans and to increase in the Bank of Israel interest rate.

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

Large business segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

The segment specializes in providing complete banking and financing services to the largest companies, in diverse sectors.

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

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

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

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

Differences between management approach and supervisory definition

- Institutional investors, which according to management approach are managed under business banking, are presented as a separate segment according to supervisory operating segments.

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

Analysis of operating results in the large business segment

	For the year ended December 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	1,189	802
Non-interest financing revenues	-	-
Commissions and other revenues	242	190
Total revenues	**1,431**	**992**
Expenses with respect to credit losses	154	101
Operating and other expenses	317	386
Profit before provision for taxes	960	505
Provision for taxes	331	171
Net profit	**629**	**334**
Balance sheet – key items:		
Loans to the public (end balance)	36,286	28,779
Loans to the public, net (end balance)	35,792	28,519
Deposits from the public (end balance)	35,612	39,636
Average balance of loans to the public	33,847	27,131
Average balance of deposits from the public	37,000	37,382
Average balance of risk assets	46,011	37,854
Credit spreads and deposit spreads:		
Margin from credit granting operations	783	602
Margin from activities of receiving deposits	262	141
Other	144	59
Total interest revenues, net	**1,189**	**802**

Net profit attributable to the large businesses segment in 2023 amounted to NIS 629 million, compared to NIS 334 million in the corresponding period last year. The increase was primarily due to increase in interest revenues, net, partially offset by increase in expenses with respect to credit losses.

Financing revenues, net amounted to NIS 1,189 million, compared to NIS 802 million in the corresponding period last year; the increase was primarily due to increase in activity and to higher Bank of Israel interest rates. Conversely, expenses with respect to credit losses increased, amounting to NIS 154 million, compared to expenses of NIS 101 million in the corresponding period last year. The increase is also due to increase in the group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

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

Institutional investors segment

Supervisory definition

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

Summary description of the segment (by Management Approach)

This segment specializes in providing service to financial asset managers, incorporating the provision of diverse services to financial asset managers:
insurers, managers of provident funds, study funds and pension funds, managers of mutual funds, ETFs, stock exchange members and investment portfolio managers.
Segment operations include operation of the aforementioned financial assets and providing banking services to managers thereof.
Services include: asset revaluation, generating control reports, generating reports to authorities, book keeping, account management and management of provident fund member rights and calculating returns. Banking services also include credit of various types and transactions involving derivatives.
The Bank has agreements in place to provide operating services to provident fund management companies, some are an addendum to sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

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

Differences between management approach and supervisory definition

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

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

Analysis of operating results in the institutional investors segment

	For the year ended December 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	204	239
Non-interest financing revenues	-	-
Commissions and other revenues	51	49
Total revenues	**255**	**288**
Expenses with respect to credit losses	1	-
Operating and other expenses	171	201
Profit before provision for taxes	83	87
Provision for taxes	29	29
Net profit	**54**	**58**
Balance sheet – key items:		
Loans to the public (end balance)	2,851	2,559
Loans to the public, net (end balance)	2,844	2,556
Deposits from the public (end balance)	78,904	75,938
Average balance of loans to the public	1,104	1,925
Average balance of deposits from the public	68,801	65,945
Average balance of risk assets	1,660	2,280
Credit spreads and deposit spreads:		
Margin from credit granting operations	23	28
Margin from activities of receiving deposits	176	197
Other	5	14
Total interest revenues, net	**204**	**239**

Net profit attributable to the institutional investor segment in 2023 amounted to NIS 54 million, compared to NIS 58 million in the corresponding period last year.

Interest revenues, net amounted to NIS 204 million, compared to NIS 239 million in the corresponding period last year.

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

Financial management segment

Supervisory definition

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

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Summary description of the segment (by Management Approach)

Financial management at the Bank is carried out by the Finance Division. The financial management segment operates in Israel and overseas, in several major areas: management of all Bank assets and liabilities, management of the bond portfolio, management of market risk exposures, liquidity management and Bank operations in the trading room on money and capital markets, in conformity with management viewpoint as to management of these activities.
Asset and liability management activities are carried out by the financial management sector, including management of sources and uses, market risk exposures – including management of liquidity, basis and interest risk, management of fund transfer prices ("FTP"), pricing of special financial transactions and management of the bond portfolio.
Trading is conducted by the trading room, including all Bank transactions in foreign currency, options, interest rate derivatives, securities in Israel and overseas and financial assets, where the counter-parties to these transactions are entities in Israel and overseas.
Nostro activity is conducted by a unit specialized in management of strategies for investment in securities on behalf of the Bank.
The division includes a unit tasked with managing relations with financial institutions and investors. This unit is responsible for all activities with overseas banks, including management of correspondent accounts, obtaining and providing diverse services and developing activities in support of Bank customer needs.
Segment activities are subject to the risk management policy applicable to this segment, and to limits imposed by the Board of Directors and management as to various exposure levels.
This segment also includes Bank activities in securities for the Bank itself (in the portfolio available for sale and in the portfolio held for trading). These activities include aligning the portfolio structure and composition with the business environment, with the state of capital markets in Israel and overseas, with limits on risk assets, while maintaining appropriate revenues and creating an anchor for future long-term revenues, within the risk appetite specified by the Board of Directors.

Differences between management approach and supervisory definition

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

Developments in the financial management segment in this period

In 2023, segment activity was affected by the following:

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

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

Analysis of operating results in the financial management segment

	For the year ended December 31	
	2023	2022
	NIS in millions	
Profit and profitability		
Total interest revenues, net	22	1,724
Non-interest financing revenues	511	754
Commissions and other revenues	460	844
Total revenues	**993**	**3,322**
Expenses with respect to credit losses	10	-
Operating and other expenses	374	534
Profit before provision for taxes	609	2,788
Provision for taxes	210	943
After-tax profit	399	1,845
Share of banking corporation in earnings of associated companies	1	5
Net profit before attribution to non-controlling interests	400	1,850
Net profit attributed to non-controlling interests	(11)	(20)
Net profit attributable to shareholders of the banking corporation	**389**	**1,830**
Balance sheet – key items:		
Average balance of risk assets	16,442	12,910
Credit spreads and deposit spreads:		
Margin from credit granting operations	-	-
Margin from activities of receiving deposits	-	-
Other	22	1,724
Total interest expenses, net	**22**	**1,724**

Net profit attributable to the financial management segment in 2023 amounted to NIS 389 million, compared to NIS 1,830 million in the corresponding period last year.

Financing revenues amounted to NIS 533 million, compared to NIS 2,478 million in the corresponding period last year. The decrease is primarily due to the lower increase in CPI, by 3.3% in 2023 compared to increase by 5.3% in the previous year, to decrease in early repayment commissions and to impact of derivatives and bonds realized.

Commissions and other revenues amounted to NIS 460 million, compared to NIS 844 million in the corresponding period last year. The decrease was primarily due to capital gain from realized real estate properties in the first quarter of 2022, amounting to NIS 371 million.

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

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

Operating results overseas

Supervisory definition

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

Summary description of the segment (by Management Approach)

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

Differences between management approach and supervisory definition

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

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

Developments in the overseas operations segment during the reported period

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

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

Analysis of operating results of overseas operations

	For the year ended December 31	
	2023	**2022**
		NIS in millions
Profit and profitability		
Total interest revenues, net	426	247
Non-interest financing revenues	-	-
Commissions and other revenues	33	26
Total revenues	**459**	**273**
Expenses with respect to credit losses	95	28
Operating and other expenses	103	77
Profit before provision for taxes	261	168
Provision for taxes	90	57
Net profit	**171**	**111**
Balance sheet – key items:		
Loans to the public (end balance)	9,052	6,539
Loans to the public, net (end balance)	8,925	6,504
Deposits from the public (end balance)	12,221	7,987
Average balance of loans to the public	7,701	5,293
Average balance of deposits from the public	10,071	5,603
Average balance of risk assets	9,810	6,882
Credit spreads and deposit spreads:		
Margin from credit granting operations	291	165
Margin from activities of receiving deposits	28	12
Other	107	70
Total interest revenues, net	**426**	**247**

Net profit attributable to the overseas operations segment in 2023 amounted to NIS 171 million, compared to NIS 111 million in the corresponding period last year.
Financing revenues amounted to NIS 426 million, compared to NIS 247 million in the corresponding period last year; the increase was primarily due to increase in loans and to higher interest rates in the USA.
Conversely, expenses with respect to credit losses increased, amounting to NIS 95 million, compared to NIS 28 million in the corresponding period last year, primarily due to the increase in group-based provision.
The increase in deposits is due, *inter alia*, to expansion of the range of recruitment channels at overseas affiliates.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Principal investee companies

Contribution of investee companies to net operating profit in 2023 amounted to NIS 384 million, compared to NIS 448 million in 2022. These data include effects of changes in exchange rates on investment balances in overseas investee companies, covered by the Bank itself.

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

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

Bank Yahav is a banking corporation, operating in conformity with a Bank license pursuant to provisions of the Banking Law (Licensing), 1981.

Bank Yahav's contribution to Group net profit in 2023 amounted to NIS 170 million, compared with NIS 140 million in 2022. Net profit was primarily affected by increase in interest revenues, net, primarily due to increase in operations in the NIS-denominated segment and in Bank of Israel interest. Net profit return on equity for Bank Yahav amounted in 2023 to 14.5%, compared to 13.8% in 2022.

Bank Yahav's balance sheet total as of December 31, 2023 amounted to NIS 37,188 million, compared to NIS 35,020 million as of December 31, 2022, an increase by 6.2%. The balance of loans to the public, net as of December 31, 2023 amounted to NIS 11,788 million, compared to NIS 11,912 million as of December 31, 2022, a decrease by 1.0%. The balance of deposits from the public as of December 31, 2023 amounted to NIS 33,060 million, compared to NIS 31,103 million as of December 31, 2022, an increase by 6.3%.

In May 2023, the Bank of Israel eliminated the limit on lending to corporations, applicable to Bank Yahav through said date. The Bank of Israel also rescinded the relief provided to Bank Yahav, for a minimum leverage ratio of 4.7%.

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

Tefahot Insurance agency is an insurance agency wholly-owned by the Bank, engaged in sale of life insurance and property insurance policies to mortgage customers of the Bank. Net profit of Tefahot Insurance Agency in 2023 amounted to NIS 85 million, compared to NIS 82 million in 2022.

Mizrahi Tefahot Leasing Ltd. (hereinafter: "Leasing")

Leasing is a company engaged in providing financial leasing services and extending loans to retail customers – car buyers.

The contribution to Group net profit in 2023 amounted to NIS 66 million, compared to NIS 54 million in the corresponding period last year.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in 2023 NIS 11 million, net – compared to loss of NIS 12 million in the corresponding period last year.

Investments in shares

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

Nostro investments and investments in investees are primarily carried out by Mizrahi Tefahot INVEST Ltd., an investment company wholly owned by the Bank, engaged in investment of funds and/or sale of interest in corporations, development, brokerage and advice on investments as well as operation and management of corporations.

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

Bank Group investments in shares as of December 31, 2023 amounted to NIS 860 million, compared to NIS 779 million as of December 31, 2022, as follows:

	As of December 31	
	2023	2022
	NIS in millions	
Under securities not held for trading:		
Participation units in equity funds	94	189
Negotiable investments	226	219
Investments in corporations presented on cost basis	282	224
Total under securities not held for trading	**602**	**632**
Shares held for trading	16	20
Total under securities held for trading	**16**	**20**
Investments in associated companies	242	127
Total under investment in associates	**242**	**127**
Total investment in shares	**860**	**779**

Bank net investment in shares as of December 31, 2023 included un-realized gain of NIS 28 million, compared to un-realized loss of NIS 44 million in 2022 (primarily due to impairment).

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

Risks overview

Overview of risks and manner of managing them

On October 7, 2023, war was declared following a sudden murderous rampage into settlements close to the Gaza Strip border. This was concurrently with the start of military escalation on the Northern border. The Bank is prepared to continue its operations and to provide service to its customers, including in war-affected zones, in as much as possible.

The Bank's business activity exposes the Bank to various material financial and non-financial risks, whose materialization has 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 processes conducted by the Bank to map and identify risk, the Bank reviews major risks, existing or new ones, arising from developments in the Bank's business environment, which may materialize over the coming year and with potential to materially impact the Bank's financial results and stability. The Bank also identifies emerging risks, or risks which may materialize over the longer term, with uncertainty about their nature and impact on the Bank. The risks mapping at the Bank 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.

The Bank's risk profile and risk assessment for the fourth quarter of 2023 remained unchanged from assessments issued in the third quarter of 2023, reflecting a potential increase in risk, compared to the second quarter of 2023 and to the end of 2022, due to the significant economic uncertainty associated with potential impact of the war. This is despite the fact that impact of the war on the Bank has yet to be fully realized, and although significant indications supportive of actual rise in risk have yet to be identified.

The potential increase in risk, as presented on the previous report, involves risk in borrower and collateral quality, reflecting the concern about increase in business credit risk – even though, as noted, there are no significant indications of rise in risk. All risk levels remained unchanged in this quarter, and currently are appropriate – even given the potential impact of systemic events, and are in line with the fact that significant indications of actual rise in risk have yet to be identified.

The assessment of other risks, prior to the war, reflects uncertainty which about the economy, with regard to the global geo-political effects, the state of the global and local economies and changes to the macro-economic environment, as well as the high interest environment and implications thereof, as well as uncertainty regarding the Government's plans to promote changes in the legal system and the public dispute concerning these. The Bank continues to monitor developments and to conduct increased monitoring of the effects of the war and derivatives thereof on economic activity and, consequently, on Bank activity and various risk aspects.

Risks description

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

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

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

The Bank maintains appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and maintains a stable source structure.

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

The likelihood of cyber threat materialization increased somewhat, due to the higher threat level in the economy, and to increased cyber attacks attempted on the banking system, increased as the war started. The Bank continues to reinforce 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.

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, legacy core systems, multitude of banking regulatory requirements and the need to implement technological tools within a short timeframe. The Technology Division operates fully in support of normal Bank operations and in providing a response to current and future technology requirements for such operations.

The Bank has an overall 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 regulatory requirements with regard to risk management and control, and in conformity with the Supervisor of Banks' Proper Conduct of Banking Business Directives, and in particular with Directive 310 "Risks Management", which is based on the Basel Committee recommendations, which specifies the principles for risks management and control in the Israeli banking system and stipulates the standards required of the banks for creating their risks management and control framework in line with regulatory requirements, the Bank's risk appetite, risk strategy and its business targets. These basic principles include, *inter alia*: proper involvement of management and of the Board of Directors in risk management, tools for risk identification and measurement, control and monitoring processes and measures for risk mitigation, which are incorporated in all of the Bank's policy documents on risk management and control. Risks in new products and activities are identified by a structured process, in conformity with the general framework policy on risk management and control.

Risk management at the Group is conducted based on an overview of Bank activity in Israel, at overseas affiliates and in operations of subsidiaries, 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 Bank has Group-wide responsibility for the overall risk management framework and for supervision and control over risk management at its subsidiaries. In this regard, the subsidiaries are instructed to manage risk in conformity with the Bank's policy and risk strategy, and to report their risk exposures to the Bank. The Bank's Board of Directors and the Board Risks Management Committee are responsible for setting the overall risk management strategy and for supervising the risk management framework at the Group, for determination of the Bank's risk appetite, approval of the risk management and control framework consistent with the risk appetite framework and setting principles in specific policy documents for risk management for each risk, to guide the Bank in its day-to-day operations. The Board of Directors is responsible for guiding, supervising and controlling management actions and for ensuring that management takes the required actions to identify, manage, measure and mitigate risk, ensures that clear areas of responsibility and reporting paths are in place at the Bank, instills an organizational culture supportive of risk management which includes implementation of high standards of professional behavior, integrity and fairness, ensuring that the Bank is operating in compliance with the Law and regulation.

Bank management is tasked with ensuring that Bank operations are in conformity with the business strategy and targets specified and approved by the Board of Directors and within the risk appetite specified by the Board of Directors. Management is responsible for regularly managing the material risks facing the Bank. Each Risks Officer, in his own area, is responsible for implementation of the principles specified by the Bank Board of Directors for addressing the risks they manage. Management is responsible for formulating risks management policy, setting limits and guidelines, deployment and implementation of risks management and control processes, reporting on the risk profile in the normal course of business and under stress scenarios, and approval of new products and activities prior to the launch thereof.

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

Risk appetite and risks management

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

Efficient, comprehensive risk management is a major pillar for ensuring bank stability over time. Risks management strategy at the Bank Group is designed to identify, manage, monitor, quantify, avoid and mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. The Bank's business activity is exposed to various material financial and non-financial risks, whose materialization has potential to impact the Bank's financial results or image. The Bank has classified the following risks as material risks: Credit risk, concentration risk, liquidity risk, market and interest risks, compliance and regulatory risk, operational risk, IT risk, information and cyber security risk, legal risk, reputational risk and other risks directly managed as part of business management at the Bank, such as: climate and environmental risk, strategic business risk, including competitive aspects in the industry, macro-economic risk and regulatory business risk.

Use of stress scenarios in risk management

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios allow the Bank to understand the impact of various stress events on Bank stability and provide a supporting tool for making business decisions. Stress scenarios are an additional integral tool to approaches, benchmarks and models used in risk management.

Objectives of stress scenario analysis at the Bank:

- Review the financial stability and the potential damage that may arise from materialization of a stress event.
- Review Bank sensitivity to unusual events.
- Assess materiality of various risks.
- Challenge the risk appetite and the capital planning.
- Identify material risk concentrations and weaknesses in the portfolio.
- ICAAP process for assessing capital adequacy.

The Bank has a diverse range of methodologies for conducting stress scenarios, calculated to assess the potential impact of various risks to the Bank's business and financial targets: Overall systemic scenarios for the entire Bank Group and scenarios for individual risk / risk factor. The Bank adapts the range of scenarios based on financial, political and geo-political developments in the local and global business environment. Moreover, in accordance with guidance from the Supervisor of Banks, the Bank applies a uniform stress test. Scenarios are calculated on daily / monthly / quarterly / annual basis, as the case may be. Assumptions for the scenario, its methodology and outcome are discussed and approved by appropriate forums and committees.

The systemic scenario – uniform stress test

In line with customary world-wide practice, once in every period (typically – once per year), 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. The most recent systemic stress scenario was submitted by banks in March 2023, calculated based on data for end of 2022. The 2022 review by the Supervisor of Banks, published in the second quarter of 2023, included the systemic stress scenario outcomes. 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 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.

ICAAP process (Internal Capital Adequacy Assessment Process)

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

The ICAAP document is extensively discussed and approved by Bank management, Board committees (Risks Management Committee and Audit Committee) and by the Board of Directors plenum.

Due to the war, the deadline for submitting the 2023 ICAAP document to the Bank of Israel was postponed to end of the first quarter of 2024.

The ICAAP document includes qualitative and quantitative comments with regard to all risk aspects at the Bank: Concise qualitative and quantitative analysis of material risks to the Bank, the capital targets, current risk profile and outlook of the Bank for 2023, developments during the year in conformity with the risk self assessment process, assessment of the impact of anticipated developments on various risks and presentation of the Bank's overall risk map. Capital planning and risk assessment in the annual ICAAP document are prepared from a Group viewpoint.

A significant part of the ICAAP document is the internal capital planning process, applied to a three-year forward planning horizon, from September 30, 2023 through September 30, 2026. This framework is used to calculate the required capital allocation with respect to each of the risks, from the requirements specified in Pillar 1 with additional capital required with respect to Pillar 2. Pillar 2 includes capital allocation for risks not included in Pillar 1, such as: Credit concentration risk and interest risk in the banking portfolio and additional capital allocations with respect to risks included in Pillar 1, but the Bank assumes require additional capital allocation. The capital allocation is calculated both for normal conditions and for stress scenarios. Stress scenarios are applied at variable frequency, intensity and levels, from scenarios at the individual risk level, a system-wide scenario to test concurrent materialization of multiple risks and through to application of stressed scenarios. These scenarios are intended to ensure that the Bank has sufficient capital cushions to survive even stressed scenarios, with high impact and very remote likelihood of materializing, and that the Bank is in compliance with the limit on ratio of Tier I equity for the stressed scenario – minimum ratio of 6.5%. The Bank also applies reverse stressed scenarios test (RST) scenarios that consider, based on the Bank's risk profile, which event may bring the Bank close to the Tier I equity limit for the stressed scenario.

The annual internal assessment process at the Bank to review capital adequacy, to be conducted in the first quarter of 2024 will review, similarly to previous years, indications that the Bank has sufficient capital to face the various risks associated with Bank operations, both in the normal course of business and under stress scenarios. Over the entire planning period, the Bank will also review whether it has available total capital higher than the total capital required by ICAAP, even after applying stress and stressed scenarios. Moreover, that Tier I capital ratio under the stress scenario, for each year of the scenario period, does not drop below 6.5%. Note that in previous years, the ICAAP results showed that the Bank had a significant excess capital cushion due to the mortgage portfolio, for which the regulatory capital allocation is significantly higher than common practice, about twice that required by Basel rules.

Risks Document

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

For more information see the 2023 Risks Report available on the Bank website.

Risk factor severity

The Bank has specified a framework for risks management and control by the Group, which includes mapping of material risks and their materiality threshold, as well as assignment of Risk Owners for all risks. For each risk, the Bank estimates its potential impact on business operations over the coming year. The table below lists the risk factors, executives appointed as Risk Owner (RO) for each one and management assessment of the impact of each risk factor, on a scale of five risk levels: Low, Low-medium, Medium, Medium, Medium-High and High.

The risk assessment for each risk is reviewed as part of the ICAAP process in the annual assessment process (Risk Assessment System – RAS), which specifies the overall risk levels, management quality and risk profile for all material risks at the Bank. This is based on risk benchmarks, qualitative parameters and subjective assessments.
Furthermore, in line with results of the Bank's annual ICAAP process, risk assessments 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, and its capacity to handle such risks, including maintaining appropriate management and monitoring processes and emergency plans for dynamic, rapid response designed to minimize damage upon materialization of events.

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

In view of the significant economic uncertainty due to the war, and the higher economic systemic risk, the Bank has conducted a risk assessment so as to reflect the currently known effects of the war and its potential implications, and potential implications yet to be fully reflected.

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-High	
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 Management Division
Cyber and information security risk	Medium	Manager, Risks Management 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 Management Division
Reputation risk(4)	Low	Manager, Marketing, Promotion and Business Development Division
Strategic business risk(5)	Low-Medium	President & CEO
Regulatory business risk	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 strategic business risk includes the capital planning and management process.

The Bank's risk profile and risk assessment for the fourth quarter of 2023 remained unchanged from assessments issued in the third quarter of 2023, reflecting a potential increase in risk, compared to the second quarter of 2023 and to the end of 2022, due to the significant economic uncertainty associated with potential impact of the war. This is despite the fact that impact of the war has yet to be fully realized, and although significant indications supportive of actual rise in risk have yet to be identified.

The potential increase in risk, as presented on the report as of September 30, 2023, involves risk in borrower and collateral quality, reflecting the concern about increase in business credit risk – even though, as noted, there are no significant indications of rise in risk. Risk levels remained unchanged in this quarter, and currently are appropriate – even given the potential impact of systemic events, and are in line with the fact that significant indications of actual rise in risk have yet to be identified.

The assessment of other risks, prior to the war, reflects uncertainty which about the economy, with regard to the global geo-political effects, the state of the global and local economies and changes to the macro-economic environment, as well as the high interest environment and implications thereof, as well as uncertainty regarding the Government's plans to promote changes in the legal system and the public dispute concerning these. The Bank continues to monitor developments and to conduct increased monitoring of the effects of the war and derivatives thereof on economic activity and, consequently, on Bank activity and various risk aspects.

Strategic business risk remained unchanged at Low-Medium, due to the fact that there has been no change to the Bank's business model, and the Bank operates based on the current strategic outline and is beyond the business targets set in the original strategic plan (for 2021-2025). However, strategic business risk incorporates all of the Bank's business operations, also reflecting the risk in the Bank's business environment, and the Bank is reviewing the increase in geo-political risk and the macro-economic and business implications that may materialize should the war last longer and/or should it expand to other regions. The current risk level reflects the potential impact of a prolonged war on the economy, the macro-economic uncertainty and the global geo-political situation and the risk due to the various rating agencies lowering Israel's credit rating. The Bank maintains appropriate safety margins for minimum capital and leverage ratios, even given the increase in systemic risk.

Regulatory business risk remained unchanged at Medium-High, also reflecting potential business implications for banking operations due to the war.

This risk refers to impact of new legislation and regulations and regulations in core matters of the financial system. Uncertainty with regard to developments and exposure of Bank operations to potential regulatory changes, that may impact core operations of the Bank.

The overall level of credit risk remained Medium. The risk level was higher in the previous quarter and is slightly higher than previously, reflecting current effects and assessments of potential future effects of the war, along with continued uncertainty with regard to the macro-economic environment. These changes affect borrower operations, and may increase credit risk. Effects of the war on credit risk are not immediately reflected, but rather over the longer term. As noted, in the third quarter of 2023, due to the war the potential risk to borrower and collateral quality increased, due to economic deterioration due to the war and its potential impact on the state of borrowers and overall business activity. The major risk concentrations include borrowers and businesses in border regions, activity in sectors identified as affected by the war, and borrowers and businesses that were at high risk even prior to the war, who are more sensitive and vulnerable to external events, as well as borrowers who have deferred payments. The Bank closely monitors the potential effects, identifying any economic sectors that may be impacted, constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite and takes steps to improve borrower repayment capacity and to reduce the risk level.

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 in this sector 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 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 15.8% (compared to 15.3% in the third quarter of 2023 and at end of 2022). Prior to the war, construction companies faced high financing expenses and significant decline in demand, along with stagnant prices. Due to the war, there is concern about increased risk in this sector, due to slower progress of construction due to shortage of labor and slow-down in activity on some construction sites, which may cause delays in apartment delivery and decrease in residential construction starts. There is also concern about decrease in apartment sales pace and in collection of sales proceeds. The Bank monitors the effects of changes on Bank operations.

The Bank has announced a range of relief measures for borrowers, designed to facilitate the debt burden, including loans at preferential terms, bonuses to affected small businesses, payment deferment etc. The Bank also participates in the loan fund for businesses, launched by the Government in early November 2023.

The risk level in the mortgage portfolio remained unchanged at Low-Medium, reflecting the potential for cumulative effects of higher interest rates and high inflation on borrower repayment capacity and uncertainty due to the war. Note that during COVID, which saw extensive mortgage deferment, in actual fact, it turned out that upon the economy resuming normal activity, the risk potential in the mortgage portfolio did not materialize. Note that risk benchmarks throughout the reported period do not currently indicate any deterioration or material change in risk level, therefore the risk assessment remained unchanged. The Bank monitors developments and the risk level may increase, primarily due to increased uncertainty about implications of the war on economic growth and activity, yet to be fully reflected. Conversely, expected further lowering of interest rates in 2024 may reduce the risk level.

The Bank allows customers to defer mortgage payments, including all types of residential mortgages, including general-purpose loans. The deferment period is for up to 12 months.

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.

For more information about impact of benefits and payment deferment offered by the Bank to customers, in order to address the Iron Swords War, see chapter "Significant developments in management of business operations" below.

For more information with regard to increase in the provision for credit losses in the fourth quarter of 2023, see chapter "Policies and critical accounting estimates" below.

Since the war started, the Emergency Credit Forum, headed by the Manager, Corporate Division (Credit Risks Officer), convenes frequently to discuss management of credit risk arising from the decline in economic activity and impact on various affected economic sectors, capital market and foreign currency exposures and exposure to key customers affected, or that may be affected, by the war (customers in the Southern and Northern regions).

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. Risk values remain high, and are primarily affected by changes in interest rate curves, which have seen increased volatility. In January 2024, the Bank of Israel lowered its interest rate to 4.5%.

Liquidity risk remained low-medium. Since the war started, and due to the security situation in Israel, the Bank's alert level with regard to liquidity increased, although there was no material change to relevant indicators, due to the wish to closely monitor any potential changes in the situation. In practice, no events nor indications were observed which would indicate realization of a liquidity event. In the fourth quarter of 2023, the Bank maintained high liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated) for the fourth quarter of 2023 was 131%. The net stable funding ratio (on consolidated basis) as of December 31, 2023 was 114% and there were no deviations from the risk appetite limitations. The Bank maintains high surplus foreign currency, and closely manages its liquidity based on specified guidelines, including ongoing review of Bank compliance with systemic emergency scenarios.

In the fourth 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 the current quarter there were no material events with regard to technology, but there is concern about impact to infrastructure and reduced staffing due to the war, which has yet to materialize so far. The Bank has focused on maintaining its preparedness to provide a full technology solution for the entire Bank, including readiness for deterioration in the security situation, along with implementation of current and strategic technology projects at the Bank.

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. Due to the war, the risk of attempted cyber attacks in the banking system is higher, as is the potential for materialization of this risk. In order to identify and thwart cyber events, the Bank has raised its alert, vigilance and readiness for such events. The Bank also acts to prevent fraud, by bolstering its monitoring activity to identify any suspect activity in customer accounts. There is constant activity by attack groups, along with continued activity and bolstering of the Bank's control and protection system. 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. In late October and in early November, several DDoS attacks were conducted against the Bank's marketing website. Throughout this attack, the Bank app and transaction website operated normally, and this attack had no impact on the Bank's business activity.

Compliance and regulatory risk remained Low-Medium. The Bank applies the current and new regulatory provisions. Due to the war, the basic systemic risk increased, due to effects of the war and of the global geo-political situation, resulting in expansion of management focus and monitoring at the Bank on issues of compliance, AML and prohibition of terror financing as applicable. Moreover, the Bank operates within the international banking framework that applies cross-border enforcement rules, and is therefore bound by regulation to set policy regarding the implementation of sanctions.

AML and terror financing risk is higher due to the war, and consequently the Bank increased monitoring and handling of this matter, while bolstering controls over transactions and customers at risk. Therefore, this risk level currently remains un-changed.

On October 10, 2023, the AML Authority addressed a letter to the financial sector and to the public, asking them to increase alertness to AML attempts in view of the war and the state of emergency. The Bank operates in conformity with directives and guidelines: to effectively and immediately identify, control, monitor, discover and report to the AML Authority any activities perceived to carry potential AML and terror financing risk.

The Bank's reputational risk remained Low. The Bank regularly monitors various benchmarks and indicators with regard to the Bank's reputation, indicating that the Bank's image and position have been maintained, and in some areas the gap in favor of the Bank over the competition has even grown. Due to the war, the Bank has taken wide-ranging actions: financial, community and social, including a constant banking effort focused on promoting the benefits and relief offered to customers, in particular those resident in the South and in the North, as well as humanitarian and volunteer activity by the Bank in various ways, and the Orange Israel and Orange Military Reserve, focused on help provided to the Bank's business customers. These actions have contributed to improvement in the Bank image, as reflected in internal and external surveys.

Legal risk remained Low-medium. In this quarter there were no unusual events which may impact Bank exposure. Legal risk is the risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties). The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units.

For more information see the 2023 Risks Report available on the Bank website.

Credit risk

Risk Description

Credit risk is the risk that a borrower or counter party of the Bank would not meet their obligations to the Bank. Credit risk is a material risk for Bank operations. This risk is affected by these major factors: Business risk due to customer activities, concentration risk due to over-exposure to a borrower 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 climate 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.

The overall level of credit risk remained Medium. The risk level was higher in the previous quarter and is slightly higher than previously, reflecting current effects and assessments of potential future effects of the war, along with continued uncertainty with regard to the macro-economic environment. These changes affect borrower operations, and may increase credit risk. Effects of the war on credit risk are not immediately reflected, but rather over the longer term. As noted, in the third quarter of 2023, due to the war the potential risk to borrower and collateral quality increased, due to economic deterioration due to the war and its potential impact on the state of borrowers and overall business activity. The major risk concentrations include borrowers and businesses in border regions, activity in sectors identified as affected by the war, and borrowers and businesses that were at high risk even prior to the war, who are more sensitive and vulnerable to external events, as well as borrowers who have deferred payments. The Bank closely monitors the potential effects, identifying any economic sectors that may be impacted, constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite and takes steps to improve borrower repayment capacity and to reduce the risk level.

The risk level in the mortgage portfolio remained unchanged at Low-Medium, reflecting the potential for cumulative effects of higher interest rates and high inflation on borrower repayment capacity and uncertainty due to the war. Note that during COVID, which saw extensive mortgage deferment, in actual fact, it turned out that upon the economy resuming normal activity, the risk potential in the mortgage portfolio did not materialize. Note that risk benchmarks throughout the reported period do not currently indicate any deterioration or material change in risk level, therefore the risk assessment remained unchanged. The Bank monitors developments and the risk level may increase, primarily due to increased uncertainty about implications of the war on economic growth and activity, yet to be fully reflected. Conversely, expected further lowering of interest rates in 2024 may reduce the risk level.

Description of risk appetite and management guidelines

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

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

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

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

Lines of defense for credit risk management:

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

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

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

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

Second line of defense

Risk Management

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

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

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

Risks Management – responsibility for credit models.

Financial Information and Reporting Division – Chief Accountant

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

Legal Division

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

Third line of defense – Internal Audit

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

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

The overall level of credit risk remained Medium. The risk level is slightly higher than previously, reflecting the current impact and assessments of potential future effects of the war, along with continued uncertainty with regard to the macro-economic environment. These changes affect borrower operations, and may increase credit risk. Effects of the war on credit risk are not immediately reflected, but rather over the longer term. The more prolonged the war and based on the overall state of the economy and actual indicators, overall credit risk may increase.

As noted, in the third quarter of 2023, due to the war the potential risk to borrower and collateral quality increased, due to economic deterioration due to the war and its potential impact on the state of borrowers and overall business activity. The major risk concentrations include borrowers and businesses in border regions, activity in sectors identified as affected by the war, and borrowers and businesses that were at high risk even prior to the war, who are more sensitive and vulnerable to external events, as well as borrowers who have deferred payments. The Bank closely monitors the potential effects, identifying any economic sectors that may be impacted, constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite and takes steps to improve borrower repayment capacity and to reduce the risk level. Since the war started, the Emergency Credit Forum, headed by the Manager, Corporate Division (Credit Risks Officer), convenes frequently to discuss management of credit risk arising from the decline in economic activity and impact on various affected economic sectors, capital market and foreign currency exposures and exposure to key customers affected, or that may be affected, by the war (customers in the Southern and Northern regions).

Most of the Retail Division customers (both small businesses and households) are rated using advanced custom models. Actual current management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system). As part of this effort, the Bank's Training Center conducts customized activity for deployment of diverse uses of the model outcomes at branches.

For more information about key processes involved in management and control of credit risk at the Bank, see the 2023 Risks Report on the Bank website.

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

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

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

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

For more information about non-accruing debts, credit risk and provision for credit losses, see Note 1.E.7 to the financial statements and the chapter "Credit risk" of the 2023 Risks Report on the Bank website.

Analysis of credit quality and problematic credit risk

Significant exposure to groups of borrowers

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

As of December 31, 2023, there was one borrower group whose indebtedness exceeded 15% of Bank capital, as defined in Proper Conduct of Banking Business Directive 313. This borrower group includes a large Government corporation in the energy sector, which is a natural monopoly in its field, as well as other borrowers in this field which are highly diversified and whose major source for credit repayment relies on their business with said corporation. The net indebtedness for this group is NIS 4.3 billion, of which NIS 1.7 billion with respect to off-balance sheet exposure. The effect of the potential off-balance sheet exposure with respect to derivative instruments is not material.

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

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

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

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

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2023 (NIS in millions):

Borrower no.	Economic sector	On-balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	1,403	501	1,904
2.	Financial services	55	1,542	1,597
3.	Civil Engineering Works	212	1,079	1,291
4.	Construction and real estate	637	647	1,284
5.	Civil Engineering Works	498	611	1,109
6.	Financial services	64	1,036	1,100

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

Leveraged financing

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

1. Credit for an equity transaction would be classified according to one of the following rules:

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

"**Equity transaction**": A transaction with one of the following goals:

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

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

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

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

Credit for equity transactions (NIS in millions):

	December 31, 2023				December 31, 2022			
Economic sector of acquired company	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Construction and real estate	-	-	-	-	353	2	355	-
Mining and excavation	532	-	532	-	523	-	523	-
Water	179	16	195	-	168	18	186	-
Transport and storage	601	-	601	-	-	-	-	-
Financial services	-	-	-	-	260	-	260	-
Total	**1,312**	**16**	**1,328**	**-**	**1,304**	**20**	**1,324**	**-**

Credit to leveraged companies (NIS in millions):

	December 31, 2023				December 31, 2022			
Economic sector of borrower	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**On-balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	-	-	-	-	222	40	262	-
Construction and real estate	914	56	970	-	394	123	517	-
Power	359	191	550	-	376	146	522	-
Commerce	188	4	192	-	142	4	146	-
Transport and storage	444	45	489	-	564	78	642	31
Total	**1,905**	**296**	**2,201**	**-**	**1,698**	**391**	**2,089**	**31**

Developments in problematic credit risk

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

	Total credit risk	
	December 31, 2023	December 31, 2022
Problematic credit risk:		
Non-accruing credit risk	3,752	2,612
Accruing problematic credit risk – non-housing	2,512	1,549
Total problematic credit risk	**6,264**	**4,161**

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

	December 31, 2023	December 31, 2022
Non-accruing loans to the public as percentage of total loans to the public	1.12	0.83
Non-accruing loans to the public as percentage of total non-residential mortgages	1.25	1.10
Non-accruing loans to the public as percentage of total residential mortgages	1.04	0.68
Ratio of problematic loans to the public to total non-residential mortgages	3.26	2.31
Ratio of problematic credit risk to total credit risk with respect to the public	1.47	1.06

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

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

	December 31, 2023		December 31, 2022	
	Recorded debt balance	Recorded debt balance	Recorded debt balance	Recorded debt balance
	Before restructuring	After restructuring	Before restructuring	After restructuring
Restructurings made	98	97	161	152

	December 31, 2023	December 31, 2022
	Recorded debt balance	Recorded debt balance
Restructurings made which are in default	6	16

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

Analysis of change to non-accruing debts

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

Movement in non-accruing loans to the public	For the year ended December 31, 2023				For the year ended December 31, 2022			
	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Non-accruing loans to the public – balance at start of the year	1,193	1,329	55	2,577	1,193	-	56	1,249
Effect of initial application of rules for identification and classification of problematic debts	-	-	-	-	-	1,174	-	1,174
Loans classified as non-accruing during the period	1,049	1,798	58	2,905	481	482	63	1,026
Loans resuming accrual of interest revenues during the period	(270)	(965)	(10)	(1,245)	(68)	(319)	(46)	(433)
Loans subject to accounting write-off	(125)	-	(13)	(138)	(164)	-	(8)	(172)
Loans repaid	(381)	(9)	(16)	(406)	(249)	(8)	(10)	(267)
Non-accruing debt balance at end of the year	**1,466**	**2,153**	**74**	**3,693**	**1,193**	**1,329**	**55**	**2,577**

Of which: Movement in non-accruing credit subject to re-structuring	For the year ended December 31, 2023				For the year ended December 31, 2022			
	Com-mercial	Resi-dential	Indivi-dual	Total	Com-mercial	Resi-dential	Indivi-dual	Total
Balance of problematic debts under restructuring at start of year	173	41	34	248	367	-	31	398
Effect of initial application of rules for identification and classification of problematic debts	-	-	-	-	-	25	-	25
Re-structuring carried out during the period	69	6	26	101	94	16	24	134
Loans resuming accrual of interest revenues	(48)	-	(11)	(59)	(116)	-	(8)	(124)
Credit under restructuring written off	(18)	-	(2)	(20)	(14)	-	(3)	(17)
Credit under restructuring repaid	(61)	-	(9)	(70)	(65)	-	(9)	(74)
Other changes	-	-	-	-	(93)	-	(1)	(94)
Balance of problematic debts under restructuring at end of year	**115**	**47**	**38**	**200**	**173**	**41**	**34**	**248**

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

Analysis of provision for credit losses

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

	For the year ended December 31, 2023					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	882	247	324	1,453	10	1,463
Accounting write-offs	(290)	-	(257)	(547)	-	(547)
Collection of debts written off for accounting purposes in previous years	137	-	123	260	-	260
Net accounting write-offs	(153)	-	(134)	(287)	-	(287)
Balance of provision for credit losses at end of period	**2,419**	**1,149**	**702**	**4,270**	**11**	**4,281**

	For the year ended December 31, 2022					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Expenses with respect to credit losses	336	99	97	532	-	532
Accounting write-offs	(330)	-	(189)	(519)	-	(519)
Collection of debts written off for accounting purposes in previous years	128	-	122	250	-	250
Net accounting write-offs	(202)	-	(67)	(269)	-	(269)
Other	25	31	79	135	-	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**

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

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

	December 31, 2023	December 31, 2022
Ratio of provision for credit losses to total loans to the public	1.30	1.00
Ratio of provision for credit losses to total credit risk with respect to the public	1.00	0.79

	Year ended	
	December 31, 2023	December 31, 2022
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.46	0.18
Ratio of net write-offs to average balance of loans to the public, gross	0.09	0.09
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.46	0.18
Of which: With respect to commercial loans other than residential mortgages	1.05	0.41
Of which: with respect to residential mortgages	0.12	0.05
Ratio of net write-offs to average balance of loans to the public, net	0.09	0.09

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

Loans bearing variable interest

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

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

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

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

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

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

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

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

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

	December 31	
	2023	**2022**
Debts		
Current account balances	1,966	2,106
Utilized credit card balances	4,532	4,648
Auto loans – adjustable interest	2,065	2,518
Auto loans – fixed interest	4,257	3,157
Other loans and credit – variable interest	13,542	13,801
Other loans and credit – fixed interest	348	305
Total debt (on-balance sheet credit)	**26,710**	**26,535**
Un-utilized facilities, guarantees and other commitments		
Current accounts – un-utilized facilities	5,585	5,200
Credit cards – un-utilized facilities	9,424	8,960
Guarantees	278	312
Other liabilities	31	36
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**15,318**	**14,508**
Total credit risk to individuals	**42,028**	**41,043**
Of which:		
Bullet / balloon loans[3]	705	576
Financial asset portfolio and other collateral against credit risk[4]		
Financial assets portfolio:		
Deposits	4,088	4,250
Securities	206	275
Other monetary assets	168	206
Other collateral[5]	3,287	3,072
Total financial assets portfolio and other collateral against credit risk	**7,749**	**7,803**

(1) As defined in Proper Conduct of Banking Business Directive 451.
(2) For measuring regular income in customer accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.
(3) Loans with a grace period for principal longer than one year.
(4) Amounts presented are the financial assets portfolio and other collateral, only up to customer debt amount.
(5) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit.

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

Loan ceiling and credit risk (NIS in thousands)		As of December 31, 2023 Number of Borrowers	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	As of December 31, 2022 Number of Borrowers	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	Up to 10	248,443	318	492	810	251,883	340	473	813
Above 10	Up to 20	113,285	611	1,054	1,665	112,216	648	1,007	1,655
Above 20	Up to 40	149,531	1,720	2,632	4,352	149,977	1,893	2,505	4,398
Above 40	Up to 80	162,697	4,638	4,646	9,284	160,636	4,846	4,361	9,207
Above 80	Up to 150	104,714	7,434	3,846	11,280	103,027	7,506	3,611	11,117
Above 150	Up to 300	55,683	9,264	2,140	11,404	52,370	8,725	2,036	10,761
Above 300		8,230	2,725	508	3,233	7,176	2,577	515	3,092
Total		**842,583**	**26,710**	**15,318**	**42,028**	**837,285**	**26,535**	**14,508**	**41,043**

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

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

Income	As of December 31, 2023 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Accounts with no fixed income for the account[(2)]	7,191	26.9	6,677	25.2
Less than NIS 10 thousand	3,663	13.7	4,372	16.5
Between NIS 10 thousand and NIS 20 thousand	7,953	29.8	8,034	30.3
Over NIS 20 thousand	7,903	29.6	7,452	28.0
Total	**26,710**	**100.0**	**26,535**	**100.0**

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

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

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

Term to maturity	As of December 31, 2023 NIS in millions	in %	As of December 31, 2022 NIS in millions	in %
Up to 1 year	4,170	20.6	4,246	21.5
Over 1 year to 3 years	6,136	30.4	6,234	31.5
Over 3 years to 5 years	5,041	24.9	4,717	23.8
Over 5 years to 7 years	2,200	10.9	2,098	10.6
Over 7 years[(2)]	2,665	13.2	2,486	12.6
Total	**20,212**	**100.0**	**19,781**	**100.0**

(1) Excluding checking account and credit cards.

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

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

	As of December 31, 2023			As of December 31, 2022		
	Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Balance of problematic credit risk	269	8	277	222	6	228
Problematic credit risk rate[2]	1.01%	0.05%	0.66%	0.84%	0.04%	0.56%

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

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

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

	For the year ended December 31	
	2023	2022
Expense with respect to credit losses as percentage of total loans to the public to individuals	1.22%[1]	0.38%

(1) Includes group-based provision for credit losses, recognized so as to reflect the increase in credit risk in the market due to the war, though no material indicators of increase in this risk have been seen to date.

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 0.7% compared to December 31, 2022, respectively.

  Composition of debts as of December 31, 2023:

Checking accounts	7.4%
Credit cards	17.0%
Auto loans	23.6%
Other loans and credit	52.0%

- Of all debts (on-balance sheet credit) as of December 31, 2023, 29.0% is secured by financial assets and other collateral in the customer's account (compared to 29.4% as of December 31, 2022).

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

Credit risk in construction and real estate economic sector in Israel

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

The Bank assumes that the war, started on October 7, 2023, would have implications for the real estate market in general, and for the Bank's real estate loan portfolio in particular, as follows:

- Shortage of labor – elimination of Palestinian workers currently prohibited from going to work, as well as call up of Israeli workers to military reserve duty and partial return of foreign workers to their home countries, which would result in slower progress on construction and in delayed deliveries.
- Supply and demand – slow-down in new purchase transactions nation-wide, especially in conflict regions, which would result in fewer new transactions and possibly in somewhat lower prices in the short term.

In 2023, the slower trend in demand for housing in Israel (started in September 2021) continued. New residential units sold in 2023 were estimated at 27 thousand residential units, compared to 41 thousand residential units in 2022. The change in sales trend is due, inter alia, to higher interest rates, higher mortgage cost and higher alternative interest rates for investments, which resulted in decrease in apartment buying by investors as well as buyers for residential purposes. Moreover, housing prices declined on average in October-November 2023, compared to October-November 2022, by 1.8%. Total housing construction starts in the 12 months from October 2022 to September 2023 were 62 thousand residential units, a decrease by 14.4% compared to the corresponding period in the previous year. Residential housing construction completions increased by 7.2%, to 55 thousand residential units. At end of October 2023, the inventory of unsold new apartments continued its upward trend, reaching 62 thousand apartments, an increase by 28% compared to October last year, with 50% of unsold apartments in Tel Aviv and the Central region. The war implications for this sector and higher interest rates, higher mortgage repayments for buyers and higher financing cost for developers have slowed down the demand and new residential construction starts, and therefore the Bank assumes that the risk associated with this sector is higher.

In late 2022, indications of a slow-down in the high-tech sector appeared; This sector is a major user of office space, and this resulted in a shift to decrease in rent in this segment, which may further decrease as the slow-down becomes more pronounced. Financing of real estate transactions at the Bank is conducted in conformity with clear policy and rules stipulated in the lending policy for various activity channels, such as: financing for land, residential construction, rental real estate, purchase groups, urban renewal, TAMA 38 and so forth. Bank operations in this sector are conducted while adhering to appropriate underwriting procedures and credit spreads to reflect the risk. The risk level in this sector is also taken into account in the quarterly review process of the group-based provision.

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

In 2023, total exposure to construction and real estate sectors increased by 12.8%, due to increased project volume on the one hand, and to decrease in receipts by developers on the other hand. The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2023, as presented below (Credit Risk by Economic Sector) is 15.8%. Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 11.9% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of housing bonds and loans to finance land, for which the Bank has obtained insurance policies). The Bank reviews in each quarter the calculation of the group-based provision for credit losses in this sector, and adjusts this provision so as to account, inter alia, for growth in the loan portfolio and the underwriting conditions.

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

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

								December 31, 2023
	Credit risk to the public[1]						Balance of provision for credit losses	
				Credit risk	Total problematic credit risk			
	On balance sheet[2]	Off balance sheet[3]		Of which:	Non-accruing	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[5]	Facilities and other com-mitments					
Secured by real estate:								
Housing	22,158	5,423	13,772	41,353	206	277	211	24
Commercial and industrial	9,713	129	2,525	12,367	128	459	200	3
Total secured by real estate	**31,871**	**5,552**	**16,297**	**53,720**	**334**	**736**	**411**	**27**
Not secured by real estate	5,954	12	6,335	12,301	109	125	164	19
Total for construction and real estate economic sector in Israel	**37,825**	**5,564**	**22,632**	**66,021**	**443**	**861**	**575**	**46**
Of which: Designated for project assistance	21,465	5,516	13,891	40,872	197	318	102	24

								December 31, 2022
	Credit risk to the public[1]						Balance of provision for credit losses	
				Credit risk	Total problematic credit risk			
	On balance sheet[2]	Off balance sheet[3]		Of which:	Non-accruing	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
		Guarantees to home buyers[5]	Facilities and other com-mitments					
Secured by real estate:								
Housing	19,386	6,007	10,848	36,241	28	296	83	60
Commercial and industrial	9,016	189	2,373	11,578	128	138	123	5
Total secured by real estate	**28,402**	**6,196**	**13,221**	**47,819**	**156**	**434**	**206**	**65**
Not secured by real estate	5,352	5	5,373	10,730	109	92	160	25
Total for construction and real estate economic sector in Israel	**33,754**	**6,201**	**18,594**	**58,549**	**265**	**526**	**366**	**90**
Of which: Designated for project assistance	18,797	6,042	11,107	35,946	19	347	61	63

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

(2) Loans to the public, investment in bonds by the public, other debt by the public and other assets with respect to derivatives against the public.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

(5) Off-balance sheet credit risk due to housing bonds / similar bonds, which are mostly backed by insurance purchased from international reinsurers.

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

	December 31					
	2023			2022		
	Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Of which:	On balance sheet	Off balance sheet	Of which:
Secured by real estate						
Real estate yet to be completely constructed:						
Raw land	15,425	1,078	16,503	15,710	703	16,413
Real estate under construction	8,364	19,232	27,596	5,791	16,833	22,624
Real estate completely constructed	8,082	1,539	9,621	6,901	1,881	8,782
Total credit secured by real estate in Israel	**31,871**	**21,849**	**53,720**	**28,402**	**19,417**	**47,819**
Not secured by real estate	5,954	6,347	12,301	5,352	5,378	10,730
Total credit risk for construction and real estate	**37,825**	**28,196**	**66,021**	**33,754**	**24,795**	**58,549**

	December 31		
	2023	2022	Change
	Credit risk to the public		
Credit risk at performing credit rating:			
Total non-problematic credit risk	62,337	56,077	11.2%
Credit risk other than at performing credit rating:			
Problematic accruing	861	526	63.7%
Non-accruing	443	265	67.2%
Non-problematic	2,380	1,681	41.6%
Total credit risk other than at performing credit rating	**3,684**	**2,472**	**49.0%**
Total credit risk for construction and real estate	**66,021**	**58,549**	**12.8%**

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

Credit risk[(2)] by economic sector

As of December 31, 2023

Reported amounts (NIS in millions)

	Total credit risk[(1)]				Off balance sheet debts[(2)] and credit risk (other than derivatives)[(3)]						
		Of which:							Credit losses[(4)]		
	Total	Credit performance rating[(4)]	Credit in good standing other than at performing credit rating	Problematic[(5)]	Total	Debts	Problematic[(5)]	Non-accruing	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,137	1,080	31	26	1,137	851	26	21	16	4	32
Mining and excavation	1,351	1,339	-	12	1,260	356	10	6	2	-	8
Industry and production	17,545	16,500	475	570	17,296	10,161	558	192	150	14	442
Of which: Diamonds	1,691	1,451	112	128	1,691	1,121	128	67	41	3	74
Construction and real estate – construction[(6)]	55,771	53,619	1,424	728	55,667	28,380	727	337	83	27	396
Construction and real estate – real estate operations	10,250	8,718	956	576	9,715	8,818	576	105	113	4	225
Electricity and water delivery	11,030	10,591	416	23	10,743	6,514	23	4	17	5	88
Commerce	16,718	15,352	487	879	16,563	12,756	879	288	246	18	520
Hotels, dining and food services	2,121	1,814	116	191	2,107	1,595	191	56	70	19	146
Transport and storage	3,632	2,866	690	76	3,612	2,988	76	31	14	11	84
Information and communications	1,748	1,625	98	25	1,683	944	25	19	11	9	30
Financial services	25,726	25,590	105	31	20,715	9,593	31	28	10	-	55
Other business services	7,647	7,341	111	195	7,644	4,921	195	95	60	27	195
Public and community services	3,269	2,841	268	160	3,238	2,545	160	145	40	15	113
Total commercial	**157,945**	**149,276**	**5,177**	**3,492**	**151,380**	**90,422**	**3,477**	**1,327**	**832**	**153**	**2,334**
Private individuals – residential mortgages	218,658	213,896	2,609	2,153	218,658	206,553	2,153	2,153	247	-	1,149
Private individuals – other	42,032	41,386	369	277	42,028	26,710	277	75	324	134	702
Total public – activity in Israel	**418,635**	**404,558**	**8,155**	**5,922**	**412,066**	**323,685**	**5,907**	**3,555**	**1,403**	**287**	**4,185**
Banks in Israel	2,286	2,286	-	-	702	702	-	-	-	-	-
Government of Israel	19,562	19,562	-	-	4	4	-	-	-	-	-
Total activity in Israel	**440,483**	**426,406**	**8,155**	**5,922**	**412,772**	**324,391**	**5,907**	**3,555**	**1,403**	**287**	**4,185**
Borrower activity overseas											
Total public – activity overseas	8,584	7,946	296	342	8,416	5,730	336	176	58	-	93
Overseas banks	27,248	27,248	-	-	26,997	26,869	-	-	2	-	2
Overseas governments	1,211	1,210	-	1	628	476	1	1	-	-	1
Total activity overseas	**37,043**	**36,404**	**296**	**343**	**36,041**	**33,075**	**337**	**177**	**60**	**-**	**96**
Total	**477,526**	**462,810**	**8,451**	**6,265**	**448,813**	**357,466**	**6,244**	**3,732**	**1,463**	**287**	**4,281**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[(2)] – 357,466; bonds – 22,453; securities borrowed or acquired in conjunction with resale agreements – 106; (on- and off-balance sheet) credit risk with respect to derivatives – 6,154; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 91,347.
(2) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(5) On- and off-balance sheet credit risk, which is non-accruing, inferior or under special supervision.
(6) Includes on-balance sheet credit risk amounting to NIS 1,070 million and off-balance sheet credit risk amounting to NIS 1,211 million, extended to certain purchase groups which are in the process of construction. For more information on credit exposures secured by international re-insurers, see "Key exposure to foreign countries" below.

Credit risk[2] by economic sector – Continued

As of December 31, 2022

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]				Credit losses[4]		
		Of which:									
	Total	Credit per-formance rating[4]	Credit in good standing other than at perfor-ming credit rating	Proble-matic[5]	Total	Debts	Proble-matic[5]	Non-accruing	Expenses with respect to credit losses	Net acco-unting write-offs	Balance of provi-sion for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,215	1,179	13	23	1,215	945	23	13	4	3	20
Mining and excavation	982	967	-	15	834	323	15	10	1	-	6
Industry and production	15,185	14,303	283	599	14,878	9,568	599	273	31	90	306
Of which: Diamonds	1,785	1,580	65	140	1,785	1,195	140	76	19	12	36
Construction and real estate – construction[6]	50,120	48,065	1,430	625	50,035	25,918	625	159	118	36	340
Construction and real estate – real estate operations	8,429	8,012	251	166	7,910	7,248	166	106	18	-	116
Electricity and water delivery	9,101	9,051	47	3	8,828	5,223	3	2	16	19	76
Commerce	14,891	13,947	571	373	14,757	11,183	373	169	11	(46)	292
Hotels, dining and food services	1,985	1,807	86	92	1,974	1,532	92	50	-	10	95
Transport and storage	2,476	1,698	608	170	2,451	1,926	170	129	(8)	(12)	81
Information and communications	2,295	2,235	27	33	2,219	1,497	33	28	13	14	28
Financial services	18,924	18,856	45	23	14,696	9,246	23	20	15	47	45
Other business services	7,162	6,761	123	278	7,155	4,798	278	127	40	7	162
Public and community services	3,375	2,992	218	165	3,347	2,705	165	130	44	1	88
Total commercial	**136,140**	**129,873**	**3,702**	**2,565**	**130,299**	**82,112**	**2,565**	**1,216**	**303**	**169**	**1,655**
Private individuals – residential mortgages	208,125	204,724	2,072	1,329	208,125	196,703	1,329	1,329	99	-	902
Private individuals – other	41,047	40,459	360	228	41,043	26,535	228	56	97	67	512
Total public – activity in Israel	**385,312**	**375,056**	**6,134**	**4,122**	**379,467**	**305,350**	**4,122**	**2,601**	**499**	**236**	**3,069**
Banks in Israel	3,417	3,417	-	-	1,648	1,149	-	-	-	-	-
Government of Israel	11,065	11,065	-	-	18	18	-	-	-	-	-
Total activity in Israel	**399,794**	**389,538**	**6,134**	**4,122**	**381,133**	**306,517**	**4,122**	**2,601**	**499**	**236**	**3,069**
Borrower activity overseas											
Total public – activity overseas	7,371	6,850	482	39	7,171	5,006	39	11	33	33	35
Overseas banks	17,764	17,764	-	-	17,502	17,485	-	-	-	-	-
Overseas governments	1,757	1,757	-	-	300	300	-	-	-	-	1
Total activity overseas	**26,892**	**26,371**	**482**	**39**	**24,973**	**22,791**	**39**	**11**	**33**	**33**	**36**
Total	**426,686**	**415,909**	**6,616**	**4,161**	**406,106**	**329,308**	**4,161**	**2,612**	**532**	**269**	**3,105**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 329,308; bonds – 14,492; securities borrowed or acquired in conjunction with resale agreements – 315; (on- and off-balance sheet) credit risk with respect to derivatives – 5,773; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 76,798.

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

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

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

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

(6) Includes on-balance sheet credit risk amounting to NIS 1,352 million and off-balance sheet credit risk amounting to NIS 1,779 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 7,310 million for which insurance has been acquired to cover the portfolio of housing bonds and performance guarantees pursuant to the Sale Law from international re-insurers.

Key exposure to foreign countries[1]

Reported amounts (NIS in millions)

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

Country	December 31, 2023			December 31, 2022		
						Exposure
	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	On balance sheet[2]	Off-balance sheet[2][3][4]	Total
USA	32,317	1,635	33,952	21,520	1,483	23,003
Barbados[5]	5,353	-	5,353	5,803	-	5,803
Others[6]	10,271	10,305	20,576	6,733	8,932	15,665
Total exposure to foreign countries	**47,941**	**11,940**	**59,881**	**34,056**	**10,415**	**44,471**
Of which: To Greece, Portugal, Spain, Italy	62	10	72	52	4	56
Of which: Total exposure to LDC countries	680	137	817	608	86	694

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.
(4) The balance of off-balance sheet exposure includes NIS 7,075 million, mostly with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel. (As of December 31, 2022: NIS 7,343 million).
(5) This exposure is with respect to insurance policies backing the mortgage portfolios in Israel. The insurer, incorporated in Barbados, is a subsidiary of an international insurance group incorporated in Canada.
(6) As of December 31, 2022 balance sheet exposure includes NIS 3,154 million with respect to acquiring insurance from international reinsurers for the loan portfolio to finance land purchase for borrowers in the real estate sector in Israel.

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

	December 31, 2023	December 31, 2022
	-	-

-

As of December 31, 2023 and December 31, 2022, there are no foreign countries for which the balance sheet exposure exceeds the threshold for this disclosure.

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

	For the year ended As of December 31, 2023	For the year ended December 31, 2022
	[1]Barbados	[1]Barbados
Exposure at start of reported period	5,803	-
Net changes to exposure	(450)	5,803
Exposure at end of reported period	**5,353**	**5,803**

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

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

Credit exposure to foreign financial institutions

Information on Bank exposure to foreign financial institutions[(1)(2)] (NIS in millions):

External credit rating	On-balance sheet credit risk[(3)]	Current off-balance sheet credit risk[(4)]	Current credit exposure
	December 31, 2023		
AAA to AA- [(5)]	6,894	4,682	11,576
A+ to A-	2,643	3,058	5,701
BBB+ to BBB-	1	-	1
BB+ to B-	-	-	-
Lower than B-	-	-	-
Unrated	18	21	39
Total credit exposure to foreign financial institutions	**9,556**	**7,761**	**17,317**

External credit rating	On-balance sheet credit risk[(3)]	Current off-balance sheet credit risk[(4)]	Current credit exposure
			December 31, 2022
AAA to AA- [(5)]	6,162	7,273	13,435
A+ to A-	875	845	1,720
BBB+ to BBB-	3	20	23
BB+ to B-	-	-	-
Lower than B-	-	-	-
Unrated	1	18	19
Total credit exposure to foreign financial institutions	**7,041**	**8,156**	**15,197**

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

(2) After deduction of provision for credit losses.

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

(4) The balance of off-balance sheet exposure to financial institutions includes NIS 7,075 million as of December 31, 2023 (as of December 31, 2022: NIS 7,343 million) with respect to acquiring insurance from international reinsurers for the portfolio of housing bonds for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.

(5) The Bank Group has no exposure to foreign financial institutions, as defined in Proper Conduct of Banking Business Directive 202, in excess of 15% of the capital base (total exposure to Barbados at end of 2022 was NIS 5,803 million with a rating equivalent to AA-).

Due to the higher inflation, many central banks started to apply a restraining monetary policy and to raise interest rates. Interest rates remained high in 2023. Political and macro-economic developments had negative impact on the global financial system. Many banks recognized impairment in their securities portfolios, and there is concern with regard to increase in non-accruing credit in some sectors, including commercial real estate and high-tech.

As from the first quarter of 2023, following the collapse of multiple banks in Europe and in the USA, the Bank expanded its close monitoring of exposures to financial institutions. Note that Bank exposure to the impacted financial institutions is very low.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.D. to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in bonds and other assets with respect to derivatives. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, *inter alia*, on financial date of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits. The Bank adjusts the exposure limits from time to time as required.
Out of total Bank group exposure, NIS 769 million, is to international affiliates of financial institutions in the USA. 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.

The Bank monitors public information and ratings, as well as any other information available with regard to financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure as required.

The Bank takes into consideration the maturity dates of its credit exposures in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Residential mortgage credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of residential mortgages. Residential mortgages account for a significant share of all credit risk at the Bank, but this segment is still highly diversified and has a Low-Medium risk level, due to extensive diversification of borrowers from various economic sectors, relatively low LTV ratios, extensive geographic diversification of pledged assets and use of various risk mitigators, including property and life insurance, to mitigate credit risk in this segment. The Bank's policies with regard to mortgages are based on a specific approach, limiting specific risk for each loan by reviewing various risk attributes. These attributes include: review of borrower quality and their capacity to make current repayments even under scenarios involving changes to interest rates, ratio of repayment to regular household income, review of transaction data and LTV ratio. The Bank sometimes requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures.
The Bank acts regularly to control and manage the risk associated with residential mortgages, for which the Retail Division, the Risks Management Division and other Bank entities are responsible. This activity also includes portfolio analysis and monitoring by key risk factors and estimation of portfolio risk using an advanced model for rating residential mortgages, including rating of each loan and calculation of probability of default and potential loss given default, as well as conducting various stress scenarios to review the effect of changes to macro-economic factors on the portfolio risk level, primarily the impact of change in unemployment, change in housing prices and change in interest rates.
Bank policy with regard to mortgages is based on an individual approach to limit the specific risk in each loan, by reviewing various risk attributes and analyzing the loan application based on risk factors with respect to borrower quality and to the nature of the transaction presented to the Bank.
When assessing borrower quality, the Bank considers, *inter alia*, the following: Per capita income, income stability, seniority and so forth. Moreover, approval of loans involves a high weighting attributed to the loan repayment to income ratio, so as to review the household repayment capacity, including under a scenario of higher interest rates.
The Bank also considers risk factors with regard to the transaction and to collateral, such as the loan purpose, LTV ratio, geographic location of collateral, findings on the appraiser report and so forth.
The Bank sometimes requires additional bolstering, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures. The Bank has an advanced model for rating residential mortgages, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing risk monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on residential mortgage operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.
These restrictions, as a whole, form the Bank's risk appetite for mortgages is defined using multiple risk benchmarks, which evaluate credit risk and concentration risk aspects at regular performance level and the overall portfolio. These benchmarks include: the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.
Regular monitoring of the risk profile of the mortgage portfolio and its evolution over time, in view of the specified risk appetite, shows that leading risk benchmarks remain stable and do not currently indicate material deterioration or change in risk level, despite the current uncertainty with regard to further developments in the macro-economic environment and its impact on the Bank. These benchmarks include: LTV ratios, repayment ratio, rate of obligation in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high

quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of December 2023) was 55.0% (reflecting the LTV ratio upon loan origination – see more details below).
The Bank constantly reviews the risk measures and risk levels, adapting them as required to current business activity, subject to and in line with the risk appetite.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2023	2022	2021	2022-2023	2021-2022
Mortgages issued (for housing and any purpose) out of Bank funds	25,980	41,052	38,353	(36.7)	7.0
From funds of the Finance Ministry:					
Directed loans	123	197	257	(37.8)	(23.3)
Standing loans and grants	111	89	73	25.0	21.3
Total new loans	**26,214**	**41,338**	**38,684**	**(36.6)**	**6.9**
Refinanced loans	8,016	5,113	7,563	56.8	(32.4)
Total loans originated	**34,230**	**46,451**	**46,247**	**(26.3)**	**0.4**
Number of borrowers (includes refinanced loans)	48,516	59,581	70,150	(18.6)	(15.1)

Below are details of various risk attributes of the residential mortgage portfolio(1) as of December 31, 2023 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age(2) (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,835	8,143	15,840	35,699	28,196	13,425	103,138
	35%-50%	581	2,239	4,281	5,677	4,768	3,130	20,676
	50%-80%	-	2	18	48	54	924	1,046
	Over 80%	-	-	-	2	11	76	89
60%-75%	Up to 35%	1,167	4,997	12,481	27,195	13,116	4,937	63,893
	35%-50%	529	2,054	4,251	4,191	1,915	1,162	14,102
	50%-80%	-	3	18	16	11	260	308
	Over 80%	-	-	-	-	-	15	15
Over 75%	Up to 35%	37	206	265	714	354	1,171	2,747
	35%-50%	11	34	73	92	60	284	554
	50%-80%	-	-	1	1	2	73	77
	Over 80%	-	-	-	-	-	12	12
Total		**4,160**	**17,678**	**37,228**	**73,635**	**48,487**	**25,469**	**206,657**
Of which:								
Loans granted with original amount over NIS 2 million		689	3,004	6,434	7,484	3,174	1,234	22,019
Percentage of total residential mortgages		16.6%	17.0%	17.3%	10.2%	6.5%	4.8%	10.7%
Loans bearing variable interest:								
Non-linked, at prime lending rate		105	1,958	13,135	23,954	13,891	8,364	61,407
CPI-linked(3)		78	799	3,689	2,685	470	2,625	10,346
In foreign currency(3)		5	101	691	1,149	916	783	3,645
Total		**188**	**2,858**	**17,515**	**27,788**	**15,277**	**11,772**	**75,398**
Non-linked loans at prime lending rate, as percentage of total residential mortgages		2.5%	11.1%	35.3%	32.5%	28.6%	32.8%	29.7%
CPI-linked loans bearing variable interest as percentage of total residential mortgages		1.9%	4.5%	9.9%	3.6%	1.0%	10.3%	5.0%
Loans with LTV over 75% as percentage of total residential mortgages		1.2%	1.4%	0.9%	1.1%	0.9%	6.0%	1.6%

(1) Balance of residential mortgages after provision for credit losses.

(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date. This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.

(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years (not inclusive).

Attributes of the Bank's residential mortgages portfolio

The Bank's policies with regard to mortgages are based on a specific approach, limiting specific risk for each loan by reviewing various risk attributes. These attributes include: review of borrower quality and their capacity to make current repayments even under scenarios involving changes to interest rates, ratio of repayment to regular household income, review of transaction data and LTV ratio. The Bank sometimes requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income and other bolstering measures.

LTV

One of the key parameters used by the Bank in minimizing risk in its residential mortgage portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2023 was 55.0%, compared to 54.6% on December 31, 2022 and to 53.4% on December 31, 2021. Out of the total loan portfolio of the Bank, amounting to NIS 206.7 billion, some 98.4% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.6 billion, or only 0.3% of the total residential mortgage portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2023, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 3.6%; for loans originated one to 5 years ago – by 4.8%; and for loans originated over 5 years ago – by 17.5%; for all loans in total – by 9.3%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total residential mortgage portfolio of the Bank to 0.9% for loans granted 1-2 years ago, 1.4% for loans granted 3-12 months ago and 1.2% for loans granted in the fourth quarter of 2023.

Repayment as percentage of regular income

The LTV ratio of a residential mortgage is a benchmark of loan risk for loans based only on collateral value, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income, net after taxes and contributions to long-term savings.

The average repayment ratio for the Bank's residential mortgage portfolio is 26.3%. Some 82.3% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is: 23.4%). Some 17.0% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is: 39.0%). Out of all mortgages, 0.8% were extended to borrowers with a repayment ratio over 50%.

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, or with high free per capita income net of mortgage repayment, or whose repayment capacity is not necessarily based on current income, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially stable guarantors. Moreover, approval of loans to such customers involves a high weighting attributed to the loan repayment to income ratio in conformity with a "normative interest rate", so as to review the household repayment capacity under a scenario of higher interest rates.

Loans bearing variable interest

The Bank offers customers residential mortgages which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

On December 27, 2020, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 329 concerning "Restrictions on extending residential mortgages". The update includes elimination of the restriction on lending at the prime lending rate, so that the restriction of at least one third of the mortgage that must bear fixed interest remains, and up to two thirds may be extended bearing variable interest.

The amendments to the directive pursuant to the circular are effective as from January 17, 2021. For residential mortgages intended to finance early repayment of a loan extended by the Bank or by another bank, the amendment applies as from February 28, 2021.

The Bank provides customers with the knowledge and expertise of its staff in order for customers to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises customers to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 15.2 billion, or 7.4% of the residential mortgage portfolio.

Note that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank evaluates the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 22.0 billion on December 31, 2023, or only 10.7% of the Bank's residential mortgage portfolio.

Means for risk management in residential mortgages

Means for risk management in residential mortgages include:

- Underwriting process – residential mortgages are evaluated and approved based on the following criteria:
- Loan approval criteria include: Accumulated experience at the Bank with regard to residential mortgages; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide examination center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
- Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
- Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
- Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.
- Mortgage-related training – The Bank’s Training Center delivers courses for training, development and improvement of all those involved in provision of residential mortgages.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the residential mortgage portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for residential mortgages

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Examination Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center based on risk, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies actions for handling debts and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.
- Financial Information and Reporting Division – regularly monitors and presents data for arrears, classification and provisions for credit losses in the residential mortgage portfolio.
- Risks Management Division – monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly applying stress scenarios to the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress scenarios, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in residential mortgages

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures and in conformity with directives of the Bank of Israel, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan. This credit insurance process is a key risk mitigator.
- Loan To Value (LTV) Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, the rate of the borrower's participation is a further indication of the borrower's financial stability.

For more information about operations of these entities, see the 2023 Risks Report on the Bank website.

Sale of residential mortgage portfolios

Transactions involving sale of residential mortgage portfolios transfer the entire credit risk from the Bank to the buyer, and are backed by legal and accounting opinions that establish a True Sale. The Bank only retains the operational risk, with respect to the Bank's commitment to the buyer to operate these loans, to collect and transfer funds and to provide regular reports. In order to minimize this operational risk, the Bank has created a computer-based operational mechanism to manage these loans and to generate regular reports to the buyers. Moreover, an annual external review (ISAE3402) is conducted of the integrity and effectiveness of processes and controls for management of the loan portfolios sold.

For more information about residential mortgages risk, see also the 2023 Risks Report available on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below.

Market risk and interest risk

Risk Description

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

Interest rate risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

Overview of market and interest risk and guidelines for its management

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes to interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital.

The Bank's Board of Directors and management have established, as part of the Bank's orderly risk mapping and identification process, that market risk is a material risk and that management of this risk is vital for stability of the Bank. Therefore, the Bank's Board of Directors has created a specific policy document for handling market and interest risk.

The policy document on handling market and interest risk incorporates Bank policy on handling such risk, on management of the risk, risk appetite, risk measurement and risk mitigators. The document stipulates the principles whereby the Bank should act in order to identify, measure, monitor, review and control the market risk and interest risk on a regular basis, both in the normal course of business and in times of stress. This document is annually approved by

Bank management, by the Board's Risks Management Committee and by the Board of Directors. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Banking Conduct Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile.

Management of market risk and interest risk at the Bank consists of two main risk focus points:

- Bank portfolio – This portfolio, which is the Bank's primary activity and risk, consists of all transactions not included in the trading portfolio, including financial derivatives used to hedge the bank portfolio. This portfolio is exposed to interest and inflation risk. The measure of exposure which the Bank wishes to retain is due to the Bank's business activity. This exposure is limited by the risk appetite, specified individually for market risk and interest risk in the bank portfolio, which is reviewed by the Bank daily, using various tools and models. Any deviation from or even getting close to the specified exposure limits are regularly reported and immediately addressed, in conformity with principles specified in the policy document created by the Bank. Management of this risk is designed to maintain a risk level, in conformity with the risk appetite specified for such risk, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.
- trading portfolio – The portfolio consists of positions in financial instruments held for trade or for hedging of other components in the trading portfolio. The consolidated portfolio includes portfolios managed by the trading room and portfolios of bonds held for trade and strategy in Israeli currency and in foreign currency – as well as derivatives designated for execution of strategies. The portfolio also includes hedging transactions for instruments included in the trading portfolio. The risk associated with this portfolio is Low.

The Bank of Israel directives relevant for market and interest risk management are: Proper Conduct of Banking Business Directive 339 "Market Risks Management"; Proper Conduct of Banking Business Directive 333 "Interest Risk Management", which expands the regulations with regard to interest risk, mostly with regard to Bank activity in the bank portfolio; and Proper Conduct of Banking Business Directive 208 "Capital Measurement and Adequacy", with regard to definition of revaluation management and capital allocation under Pillar 1 with respect to the trading portfolio.

The Bank is required to allocate capital with respect to interest risk and equities in the trading portfolio, for exchange rate risk for all banking activities and for options risk. The Bank uses the effective duration method in measuring interest risk, and the Delta Plus method in measuring options risk. This method quantifies the risk associated with operations of the options portfolio based on the discounting values. These reflect the sensitivity of the options portfolio to movements in the underlying asset and in standard deviation.

The Bank's exposure to equities is low; the Bank has a limited equity portfolio in the nostro portfolio and in the real investments portfolio. Bank operations in the trading portfolio, as noted above, are subject to restrictions which reflect low risk appetite and therefore, the Bank's capital allocation with respect to market risk is very low.

Overall market risk is categorized as Low-Medium. The market risk in the trading portfolio is minimal, in line with Bank policy. The bank portfolio includes the positions not classified as negotiable positions in the trading portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal course of business and under stress scenarios, including systemic scenarios and stressed scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Due to incomplete alignment of the average duration of uses and the average duration of sources, the Bank's economic value is exposed to changes in interest rate curves.

This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VAR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. The Bank's exposure assessment to interest risk in the fourth quarter of 2023 is Medium to Medium, due to high uncertainty and potential impact for borrower and depositor behavior.

It is Bank policy to raise unique deposits which both answer customer needs and hedge interest rate exposures.

For more information about these models, their use and their limitations, see the 2023 Risks Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the trading portfolio and in the bank portfolio.

For more information about market and interest risk, see also the 2023 Risks Report available on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting fund transfer pricing at the Bank (FTP). Fund Transfer Prices (FTP) at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government bonds. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, including at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests, which are regularly evaluated, through internal controls processes at the Bank, including continuous validation processes.

The Bank has two major models for managing its market and interest risks: The VAR and EVE models. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VAR calculation, commonly used around the world. The VAR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which evaluates changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve and scenarios of non-concurrent increase/decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks.

Due to the security situation, as from October 8, 2023 the Emergency Financial Forum, headed by the Manager, Finance Division, convenes often to discuss management of financial risk that may arise due to the war.

To date, the war impact on exposure to interest and currency risks is not material. However, due to continued uncertainty with regard to potential developments in changes in the macro-economic environment in Israel and world-wide, continuation of uncertainty with regard to the Russia-Ukraine war and their impact on the Bank, close monitoring of potential effects of such changes on Bank activity and risk assessment continues, even to a higher degree. Risk values measured in the normal course of business and under stress scenarios were higher in this quarter, due to current banking operations. Furthermore, the Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Below is the VAR for the Bank Group (NIS in millions):

	2023	2022
At end of period	1,666	759
Maximum value during period	2,522 (November)	(Jul.) 1,018
Minimum value during period	(Jan.) 875	(Apr.) 553

The high value at maximum risk, observed in November, is due *inter alia* to the sharply higher price volatility due to the war. After price volatility became more moderate at end of the fourth quarter, risk values returned to a lower level, similar to the pre-war levels.
Back-testing of the historical-analytical VAR model in the overall portfolio resulted in several gain/loss observations that exceed the VAR model forecast, created by a sharp increase in interest rate curves and sharp market fluctuations due to the war. These exceptions do not disqualify the VAR model.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	December 31, 2023					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	USD	EUR	Other	Total
2% increase	(1,766)	(2,393)	608	10	22	(3,519)
2% decrease	2,182	2,774	(605)	19	(24)	4,346
	December 31, 2022					
2% increase	(878)	(2,435)	459	20	22	(2,812)
2% decrease	895	2,519	(449)	21	(25)	2,961

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.
Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 4-5 years for different customer types.
The Bank regularly reviews the risk estimation methodology, in line with global common practice.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[(1)] of financial instruments of the Bank and its subsidiaries thereof:

	As of December 31, 2023			As of December 31, 2022		
	NIS	Foreign currency[(2)]	Total	NIS	Foreign currency[(2)]	Total
Net adjusted fair value[(1)]	23,899	1,028	24,927	21,360	1,442	22,802
Of which: Banking portfolio	16,622	(327)	16,295	17,264	1,534	18,798

Impact of change scenarios in interest rates on net adjusted fair value[(1)] of the Bank and its subsidiaries:

	As of December 31, 2023			As of December 31, 2022		
	NIS	Foreign currency[(2)]	Total	NIS	Foreign currency[(2)]	Total
Concurrent changes						
Concurrent 1% increase	(1,872)	290	(1,582)	(808)	339	(469)
Of which: Banking portfolio	(1,863)	295	(1,568)	(787)	340	(447)
Concurrent 1% decrease	1,501	(393)	1,108	641	(489)	152
Of which: Banking portfolio	1,490	(400)	1,090	617	(491)	126
Non-concurrent changes						
Steeper[(3)]	(1,353)	92	(1,261)	(1,034)	133	(901)
Shallower[(4)]	779	35	814	1,072	25	1,097
Short-term interest increase	(243)	286	43	(4)	333	329
Short-term interest decrease	355	(294)	61	336	(340)	(4)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.
(2) Includes Israeli currency linked to foreign currency.
(3) Short-term interest decrease and long-term interest increase.
(4) Short-term interest increase and long-term interest decrease.

The difference between exposure of the bank portfolio to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 325 million.

Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar customer.

This calculation allows for scenarios which may result in negative interest rates and does not cap interest rates at 0%.

See Note 33 to the financial statements for additional information.

Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[(1)]:

	As of December 31, 2023			As of December 31, 2022		
	Interest revenues	Non-interest financing revenues[(3)]	Total	Interest revenues	Non-interest financing revenues[(3)]	Total
Concurrent changes[(2)]						
Concurrent 1% increase	64	[(4)]238	302	472	26	498
Of which: Banking portfolio	56	212	268	472	28	500
Concurrent 1% decrease	(866)	(643)	(1,509)	(1,100)	(272)	(1,372)
Of which: Banking portfolio	(857)	(621)	(1,478)	(1,100)	(274)	(1,374)

(1) For a one-year term.
(2) Changes to risk-free interest.
(3) Includes the effect of fair value, gain (loss) from transactions in bonds and the effect of interest accrual for transactions in derivatives.
(4) Includes the effect of recording derivatives at fair value, resulting in technical recording of revenues amounting to NIS 240 million under the scenario of 1% increase in interest rate.

Below are the key assumptions underlying the above data, which are in line with how the Bank manages interest risk:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 4-5 years for different customer types.
- As from 2021, when calculating sensitivity of interest revenues, the risk-free interest rate is not capped at a minimum of 0%. In the same way, no cap is applied to the discount rate at 0% when calculating non-interest financing revenues.
- Given the change in the interest rate environment, behavioral assumptions were updated with respect to current account balances in credit and the securities portfolio. The assumption is that under a scenario of rising interest rates, funds would be diverted from current account balances to interest-bearing deposits, as well as changes to bonds in the nostro portfolio.

Under the concurrent scenario of interest rate increase by 1%, the capital reserve with respect to securities is expected to decrease by NIS 261 million.

For more information about interest risk, see the Detailed Risk Management Report on the Bank website.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

CPI and exchange rate

Review of inflation and exchange rate risk and principles for management thereof

Inflationary exposures – The Bank has inherent exposure to negative inflation due to Bank activity in the bank portfolio, including excess CPI-linked mortgages over CPI-linked sources. The risk management policy is in line with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame, subject to the specified risk appetite. The actual exposure is estimated as part of the risk appetite benchmarks and models applied by the Bank to all market risks. Risk is assessed as Low-Medium, reflecting the exposure and expected inflation.
Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk. The Bank's overall currency risk level is low.
Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risk management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2023, the Group capital exceeded its non-monetary items by NIS 26.0 billion. Free capital of the Group, which includes financial capital, was used in 2022 to finance uses in the NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2023 and 2022 are presented in Note 31 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investee companies, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2023 as presented in Note 31 to the financial statements, amounts to NIS 30.5 billion, representing the economic exposure. In December 2022, excess assets in this segment amounted to NIS 26.8 billion.

Excess uses in foreign currency for the Group as of December 31, 2023 amounted to NIS 374 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 4 million. As of December 31, 2022, the foreign currency position for the Group, after the aforementioned adjustments amounted to surplus uses of NIS 7 million. The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including bond issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis, presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2023.

Capital increase (erosion) (NIS in millions):

				Scenarios	Historical stress scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI[2]	3,078.0	1,539.0	(1,539.0)	(3,078.0)	347.8	(277.0)
USD	7.7	1.8	6.6	21.7	1.1	3.3
GBP	0.2	0.1	(0.1)	(0.2)	0.1	(0.1)
JPY	0.3	0.1	(0.2)	(0.5)	0.1	(0.2)
EUR	8.3	2.3	2.1	5.1	1.0	2.3
SFR	(0.4)	(0.2)	0.2	0.4	(0.6)	0.2

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 923.4 million and NIS (923.4) million, respectively.

Share price risk

For more information about share price risk, see the 2023 Risks Report available on the Bank website.

For more information about equity investments in the bank portfolio, see chapter "Major investee companies" above, the 2023 Risks Report on the Bank website and Notes 12 and 15.A to the financial statements.

Liquidity and financing risk

Risk Description

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

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Liquidity risk is managed subject to the limitations of the Board of Directors and Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

In 2023 there were no recorded deviations from the Board of Directors' restrictions.

Liquidity risk remained low-medium. Since the war started, and due to the security situation in Israel, the Bank's alert level with regard to liquidity increased, although there was no material change to relevant indicators, due to the wish to closely monitor any potential changes in the situation. In practice, no events nor indications were observed which would indicate realization of a liquidity event.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risks management", Directive 342 "Liquidity risk management", Directive 221 "Liquidity coverage ratio" and Directive 222 "Net stable funding ratio". The risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank's Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio, net stable funding ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

In 2023 there were no recorded deviations from the Board of Directors' restrictions.

For more information about liquidity risk, see also the 2023 Risks Report available on the Bank website.

Overview of financing risk and guidelines for its management

Financing risk is managed, as part of the liquidity risk, using Board and Management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, customer type, individual depositor, number of customers, product, currency and average deposit term. A "comprehensive index" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policy on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of bonds and obligatory notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its customers, deposits with unique attributes, which allow customers to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In 2023, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2023 Risks Report available on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This regulation is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above. The average liquidity coverage ratio for the fourth quarter of 2023 was 131%. As noted above, in 2023 there were no recorded deviations from these restrictions.

Net stable funding ratio

Proper Conduct of Banking Business Directive 222 "Net stable funding ratio" stipulates a minimum net stable funding ratio of 100% ("Regulatory NSFR") of available stable funding and required stable funding. As part of its risks management policy, the Bank's Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the net stable financing ratio for the Group would be 5% higher than the minimum required. This ratio is managed and reported in total for all currencies, on consolidated basis.

As of December 31, 2023, the ratio on consolidated basis was 114%.

For more information about liquidity risk, see also the 2023 Risks Report available on the Bank website.

For more information about the Bank's cash flows by maturity, see Note 32 to the financial statements.

As of December 31, 2023, the balance of the three largest depositor groups at the Bank Group amounted to NIS 22.3 billion.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2023, was 58% (as of December 31, 2022: 49%), of which balance sheet sources for terms longer than 1 year – 25% (as of December 31, 2022: 38%).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2023 are for terms of up to 1 year, constituting 95% of total foreign currency-denominated sources (as of December 31, 2022: 92%), of which 30% are sources for terms longer than 3 months (as of December 31, 2022: 37%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by conforming the terms, as part of dynamic management of sources and uses.

For more information about raising sources and development of the balance of deposits from the public, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Operational Risk

Risk Description

Operational risk is defined as the risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank and the Group.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Operational risk includes information security and cyber risk, IT risk and legal risk.

Operational events are classified under seven risk categories, in conformity with Basel principles: Embezzlement (Bank defrauded by its employees), external fraud (Bank defrauded by customer), work practices and safety of the work environment (loss due to actions not in line with labor laws or agreements), practices regarding customers, products and business (failure to meet obligations to customer), damage to physical assets, performance, distribution and process management and business disruptions and system failures. The Bank manages and measures operational risk base on these categories as well.

Overview of operational risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions have increased legislator awareness and financial institutions' awareness of materiality of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes.

Operating risk is material as it occurs across all areas of activity and in all Bank units. Operating risk may potentially impact earnings, revenues, capital and reputation of the Bank and is correlated with other risks, such as: market risk, credit risk, liquidity risk, reputation risk and other risks. Operating events sometimes occur which are not under control of the Bank, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding), pandemic or security event. Therefore, efficient risk management is crucial for the Bank's risk management processes.

Operational risk is inherent in all products, activities, processes and systems at the Bank. With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity.

Bank management and the Board of Directors attach great importance to managing this risk, due to its materiality, as part of the Bank's overall framework for risks management and control. The Board of Directors and management have determined that management of operating risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of high standards of internal control at all levels.

The Bank has a framework policy on operational risk management that specifies the principles whereby the Bank manages operational risk, risk materiality, how it is managed, measurement and monitoring processes and actions taken by the Bank to mitigate such risk. Policy principles were specified in line with Bank strategy with regulatory requirements (Proper Banking Conduct Directives of the Bank of Israel and relevant Basel Committee directives) and in line with globally accepted best practice.

The policy elaborates the corporate governance and the roles and responsibilities of the various lines of defense and stipulates the importance of deploying an appropriate culture for management of operational risks at the Bank and Group. Risk management at the Bank is carried out in conformity with Bank of Israel directives. Directive350 "Operational risks management" and Directive310 "Risk management", which specify the overall risk management framework, and the Basel document "Principles for management of operational risk" (dated October 2014), which specify the rules for proper management of operational risk.

The Operational Risk Manager at the Bank is the Manager, Risks Management Division – who is also the Bank's CRO, responsible for proper implementation of the operational risk handling framework, acting through the Risks Management Division. The framework stipulated also includes the framework required for handling fraud and embezzlement risks, which are part of the operating risk categories according to Bank of Israel directives.

Bank policy determined the Bank's operational risk appetite in multiple qualitative and quantitative aspects, under normal business conditions and under stress scenarios. The risk appetite was specified with respect to actual losses and potential losses, at the overall portfolio level and by risk category.

The policy document was approved by Bank management and by the Board of Directors in 2023, as part of the approval process of all policy documents for risk management and control.

The Bank acts to dynamically measure and identify operational risk on two levels: Measuring loss due to failure events that actually materialized, and measuring potential risk identified by the operational risk survey process and in the risk map. Operational surveys are conducted for all Bank operations, in conformity with a three-year plan. The Bank implements a three-year plan for conducting operational risks surveys for all Bank operations, concluded at the end of 2022. This activity is an on-going process designed to generate a risk map, to increase the effectiveness of risk management and mitigation, while learning, re-assessing risk, including to due materialized events.

The Bank monitors and documents all operational failure events, including events for which a loss was incurred, as well as events with no loss or even events with a profit. Measurement of actual loss vs. the risk appetite in the normal course of business only includes loss events (without offset of profit events) and after accounting for any insurance coverage if actually realized.

The Bank conducts surveys to identify and map potential operational risks at various divisions, as a continuous process focused on mapping and assessment of material risks at each unit. The Bank has specified multiple key risk indicators (KRI) designed to identify potential risk prior to materialization. The survey results and action items (AI) are discussed, as part of self-assessment processes, by specific forums, attended by managers of the surveyed units and representatives from the Risks Management Division.

In addition to these surveys, the Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Such analysis serves the Bank in implementation of appropriate steps for parallel processes within the Bank.

The Bank has a custom system for operational risks management (PSTL – Operational Risk Portal), used by the Bank to monitor and analyze failure events, risk surveys and generating the risk map, linking any actual materialized events to the risks map, regular monitoring of recommendations for implementation arising from surveys, failure events and lessons learned. And reports with regard to operational risk.

The Bank is acting to improve the effective handling of fraud and embezzlement risk. As part of this effort, the Bank is implementing a system using business laws to flag and identify unusual activity. Handling of fraud and embezzlement is in conformity with a specific operational risks management framework policy document and the policy document on management of embezzlement risk. The framework includes a combination of Bank entities: Internal Audit, Risks Management, information security and cyber, human resources, Security Unit and the Technology Division.

The Bank allocates capital with respect to operating risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operating risk. This segmentation and addressing the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operating risk is reviewed quarterly, as part of the Bank's Risks Document. The quantitative and qualitative risk profile is presented in this context in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter are also presented and analyzed.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. One of the key tools is conducting operational risk surveys for all Bank operations, to create and manage the risks map on a regular basis. The surveys are conducted as risk self-assessment (RSA), where the business unit (the first line of defense) assesses the risks associated with its operations. The Risks Management Division provides guidance to the business unit with regard to the methodology for conducting the survey and for effective assessment of the existing risks, and challenges the survey outcome. The Bank has concluded the three-year plan for conducting operational risk surveys across all Bank operations in 2022. The methodology for conducting surveys consists of four stages: Assessment of inherent risk, assessment of the effectiveness of controls, assessment of residual risk, and managing the findings and risk mitigation processes.

Another key process is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. Operational risk trustees were appointed at headquarters and in branches, serving as the long arm of the Operational Risks Owner in this process. The Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk, as well as conducting seminars to provide regular guidance to operational risk trustees at headquarters and in branches.

One of the risk mitigation tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated to operational risk trustees for deployment at their units.

The Bank has established policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk through insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank also has insurance coverage under a custom cyber insurance policy, an additional layer over the banking insurance policy, which adds coverage related to computer-based crimes to the banking insurance policy. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity" and in the fourth quarter of 2023, completed implementation of the 2023 work plan.

Since the war started and given the declaration of a Special Homeland Situation and State of Emergency declared by state entities, the Bank declared a State of Emergency and activated its emergency plans for the war scenario and its emergency management and reporting frameworks. The Bank maintains availability and continuity of essential services to customers in as much as possible, in conformity with restrictions, and acts to create appropriate alternatives for service provision, implementing highlights and relief in service provision as issued by the Supervisor of Banks. The Bank has extended work from home for essential employees, and has elaborated the relevant operating procedures and processes. The Bank also operates a mobile branch in areas of evacuees, at variable frequency based on needs of the evacuees and in co-ordination there with.

As for Group-level control, in this quarter, too, the Bank continued to maintain constant contact with business continuity units of the Group and its overseas branches. Due to this declaration of a Special Situation, the Bank maintains constant contact with Group subsidiaries and monitoring of implementation of the directives and preparations under the war scenario, including with Group subsidiaries.

Information security and cyber defense

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

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank Board of Directors approved the cyber defense strategy and approved the risk management framework, including specification of the responsibilities of the various lines of defense and risk management processes from various aspects and the comprehensive cyber defense policy with reference to all required defensive components. The Bank's cyber security is managed by the Chief Information Security Officer, reporting directly to the Manager, Risks Management Division – responsible, inter alia, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan, and in particular activities of the Technology Division for implementing the policy across Bank networks, and review of the effectiveness of systems and processes for information security and cyber defense. There are also several management-level forums that conduct quarterly monitoring of risk management and mitigation, as well as control over appropriateness of resources allocated to this area, in conformity with the risk assessment and changes to the technology environment at the Bank.

Direct banking systems at the Bank include information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to customers and identification of exceptional transactions.

In the fourth quarter of 2023, risk remained Medium. In this quarter, a small number of fraud attempts against customers were identified, in which their account credentials were stolen in order to conduct un-authorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in customer accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to 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.

Supplier and outsourcing risk

The Bank works with a wide range of suppliers for various business needs. Using suppliers and outsourcing allows the Bank to achieve strategic targets, obtain expertise, expand the product range and improve service. Contracting with suppliers exposes the Bank to risks including the following: Operational risks, business continuity, information leakage, technology, compliance, legal, reputational and so forth. Such risk is regularly managed by risk management processes, procurement processes, business continuity and information and cyber security. The Bank has formulated and approved policy on supplier and outsourcing risk management, in conformity with Proper Conduct of Banking Business Directive A359 "Outsourcing".

IT risk

In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. The IT management framework address existing technology risks in normal situations, along with risks that exist in system-wide failure situations, such as: system faults, as well as in other emergency situations. This is in order to ensure the business continuity of the Bank and its customers, thus mitigating reputation risks and business risks which could arise under such conditions.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management".

Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank applies diverse measures to monitor and mitigate risks, including through methodological risk mapping, a set of Key Risk Indicators (KRI) and systems supporting risk monitoring and mitigation. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also has a NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects. In 2023, the Bank continued to bolster these capabilities.

In 2023, the Bank continued to reinforce its capacity to monitor performance and response times of various key systems in order to identify malfunctions in early stages. In this regard, monitoring of the Bank app was expanded, with service availability and app response times monitored in real time. These monitoring capabilities, primarily through bots and dedicated systems, are on top of similar capabilities in place for the Bank website, self-service stations, telephony systems and so forth. In 2023, the Bank further extended the development of monitoring and control capabilities for key in-house systems, such as CRM, ATLAS and SHOHAM, jointly with the business partner (BPM).

Legal risk

Legal risk is defined in Proper Conduct of Banking Business Directive 350 regarding "Operational risks" and includes absence of potential for legal enforcement of an agreement and includes, but is not limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: customers, suppliers and other third parties).

Legal risk includes risks arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risks arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risks Manager. The Bank constantly strives to minimize as much as possible the legal risks associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank and provides current legal advice to the Bank and its various units and to provide group supervision over risk management at the Bank Group.

In 2023, there were no unusual events which may impact Bank exposure. Legal risk remained Low-Medium.

For more information about operational risk, see also the 2023 Risks Report available on the Bank website.

Other risks

Compliance and regulatory risk

Risk Description

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with various compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Management Division (CRO). The Compliance Officer is responsible for continuous management of this risk.

The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for managing and reducing compliance risk across the Bank.

The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank's Board of Directors. The Compliance Officer acts to deploy a compliance culture at the Bank, at subsidiaries including Bank Yahav and Bank affiliates overseas, by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new customers, or to material changes to any of the above. The Bank conducts compliance surveys in various compliance areas, so as to ensure the effectiveness of compliance risk management activities. The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its customers and with other stake holders, places the customer at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics and the Bank takes action to deploy and implement the value of Fairness among employees.

The Bank has internal enforcement programs for securities and for anti-trust law.

The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank. 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.

Compliance risk remained unchanged in 2023, at Low-Medium. In view of effects of the war, the Bank increased its management and IT focus on fairness to customers, in particular for accounts of customers involved in the war or affected by implications thereof. The Bank acts to provide resolution so as to enable service provision to everyone even in this period, in conformity with Proper Conduct of Banking Business Interim Directive 251 with regard to adjustment of Bank of Israel directives during war time, letters from the Supervisor of Banks and the AML Authority. Concurrently, emphasis is placed on implementation of fair work processes with customers, with due consideration of the complexity and required sensitivity during this period.

This risk assessment is due, inter alia, to addressing of risks classified as high and to further enhancement of controls, training delivery, findings of surveys and audit reports and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators. The Bank also applied regular controls, in order to monitor compliance risk that may materialize during this period.

For more information about compliance and regulation risk, see also the 2023 Risks Report available on the Bank website.

Cross-border risk

Risk Description

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

Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank customers, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies to the Bank's overseas affiliates, in activity with foreign-resident customers.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Law – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

Overview of cross-border risk and guidelines for management thereof

The Bank has near-zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority.

Cross-border risk remained unchanged in 2023 at Low-Medium. The Bank continues to conduct processes designed to improve the quality of risk management, including by revising procedures, automating work processes, specifying cross-border risk level for account, applying second line of defense controls, improving professional knowledge, including by delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required for reporting under both FATCA and CRS.

The Bank also monitors regulatory updates from relevant countries for the Bank and its affiliates, and implements them if applicable.

The Bank applies the statutory provisions for implementation of FATCA and CRS, and provides timely reports to the Israeli Tax Authority/ The Bank is compliant with terms and conditions of the QI agreement with the IRS, to be conducted in 2024 and reported to the US tax authority (IRS). International entities, including OFAC (of the US Department of Treasury) and the European Union have imposed international sanctions on countries, organizations and individuals. These sanctions grew in scope due to the ongoing Russia-Ukraine war. As part of management of its international financial operations and maintaining proper business relations with correspondent banks, the Bank is compliant with these sanctions. As part of management of cross-border risk, the Bank especially monitors and reviews any monetary transactions where any party to such transaction is located in a country / entity subject to international sanctions.

For more information about cross-border risk, see also the 2023 Risks Report available on the Bank website.

AML risk

Risk Description

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

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international AML effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and customers that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

The Bank has zero risk appetite with regard to AML risk. Therefore, the Bank has specified that any faults discovered with regard to AML risk would be addressed by Bank units as a top priority.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected *inter alia* by enhanced controls and appropriate custom training.

AML risk remained unchanged in 2023 and is defined as low-medium. The risk assessment is due, *inter alia*, to further intensive training and deployment activity along with risk-focused controls, improvement of documents and classifications, and taking effective action to avoid recurrence of unusual events and compliance failures, in view of increased business activity and further increased regulatory activity reflected, *inter alia*, in frequent issue of new directives, for which the Bank prepares accordingly.

On October 11, 2023, the AML Authority addressed a letter to the financial sector and to the public, asking them to increase alertness to AML attempts in view of the war and the state of emergency. The Bank operates in conformity with directives and guidelines: to effectively and immediately identify, control, monitor, discover and report to the AML Authority any activities perceived to carry potential AML and terror financing risk.

Although this risk has increased due to the war, the Compliance Department took action, including issuing updates to business units about the need for caution in these days, bolstering controls over transactions and customers at risk and delivery of custom training. Therefore, this overall risk currently remains un-changed.

For more information about AML, see also the 2023 Risks Report available on the Bank website.

Terror financing risk

Risk Description

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

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international anti-terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and customers that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

The Bank has zero risk appetite with regard to terror financing risk. Therefore, the Bank has specified that any faults discovered with regard to terror financing risk would be addressed by Bank units as a top priority.

For terror financing risk, the risk assessment is based, inter alia, on risk assessment conducted by the Bank, on continued risk-focused management, as reflected by revision of operating procedures and processes, including IT support and process streamlining, training and deployment activities along with risk-focused controls in the first and second lines of defense, and taking effective action to prevent recurrence of unusual events and compliance failures and strict control over banking activity.

Terror financing risk is increased due to the war. Consequently the Bank increased monitoring and handling of this matter, while bolstering controls over transactions and customers at risk. In the fourth quarter, as part of regular risk management, and due to the Iron Swords War and its impact on terror financing risk, the risk level was revised to Low-Medium, compared to previously reported Low risk. The Bank continues to be focused on managing this risk.

For more information about terror financing risk, see also the 2023 Risks Report available on the Bank website.

Reputational risk

Risk Description

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event, cyber security event or any other event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by customers to withdraw deposits.

Overview of reputational risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.

The Reputation Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.

Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.

In the fourth quarter of 2023, despite the war, reputational risk remained unchanged at Low. The Bank regularly and systematically monitors various benchmarks with regard to the Bank's reputation, indicating with respect to discourse on social networks and to customer satisfaction, indicating that the Bank's image and position have been maintained, and in some areas the gap in favor of the Bank over the competition has even grown. In the fourth quarter of 2023, the Bank maintained constant banking effort focused on promoting the benefits and relief offered to customers affected by the war, as set forth above in chapter "Significant developments in management of business operations", as well as humanitarian and volunteer activity by the Bank in various ways.

At end of 2023, the Bank's reputational risk remained Low, as it has been throughout the year. The strong image perceptions, customer satisfaction (including Union Bank customers who went through a transition and adjustment experience), mostly positive discourse on social media and high sensitivity to brand management (even in the face of national crises, such as: judicial reform, increased social polarization etc.) all contributed to the Bank's stable, positive reputation.

Strategic business risk

Risk Description

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

Review of strategic business risk and principles for management thereof

The Bank operates in conformity with a five-year strategic plan, approved by the Bank's Board of Directors in April 2021, whose principles have been made public. The strategic plan was reviewed and challenged by Risks Management in aspects of business focus, risk profile and feasibility. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is regularly monitored by the Financial Information and Reporting Division, and is challenged by the Risks Management Division. For more information about the strategic plan, see chapter "Business goals and strategy" above.

The Strategic Business Risk Owner is the President & CEO; based on his guidance, management periodically reviews the implementation of the strategy: Monitoring of developments of external factors which may affect the Bank's strategic risk, including regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan. In addition, the Financial Information and Reporting Division and the Risks Management Division regularly and independently monitor strategic business risk from different control aspects, primarily the following: achievement of targets, risk mapping and identification, stress testing, threat tests and continuous monitoring of the risk profile in view of the Bank's risk appetite. In addition to continuous monitoring of the implementation of work plans and aligning them with the strategic outline, the Bank also monitors developments of external factors which may impact the Bank's strategic business risk. The work plans of Bank divisions are adapted, when needed, to the changing business environment in order to achieve business targets and the strategic outline. The Bank is prepared for emergencies so as to reduce the impact to the Bank's business and strategic plan, should extreme economic or geo-political conditions evolve.

Developments in the business environment which may impact strategic risk

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

At this stage, the potential implications of the war have yet to modify the principles underlying the Bank's business model, and therefore the risk level remains un-changed. However, there is significant uncertainty regarding the duration, scope and impact of the war, and this may have significant implications for the Israeli economy and, consequently, for the entire banking system.

For more information about strategic-business risk, see also the 2023 Risks Report available on the Bank website.

Regulatory business risk

Risk description and development thereof

Regulatory business risk, as from the second quarter of 2023, is presented separately from strategic business risk.

This risk, currently assessed to be Medium-High, refers to legislation, including legislation in process, in core banking areas, as well as new regulation and regulatory expectations of regulatory entities, whether in process or completed, which may potentially impact core banking operations. In the third quarter of 2023, regulatory business risk remained un-changed, after being increased in the previous quarter, thus it also reflects potential business implications for banking operations due to the war.

Environmental risk and climate risk

Risk Description

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

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

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

Risk overview and risk management guidelines

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental aspects has grown. In conformity with a letter issued by the Supervisor of Banks, banks are required to act to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, within periodic assessment of quality of credit extended.

In December 2022, the Supervisor of Banks issued an update to Public Reporting Directives with regard to public disclosure of environmental, social and governance (ESG) aspects, which indicates the high importance the Supervisor sees in promoting environmental risk management and opportunities, including climate risk. The Bank is preparing to implement the directive, both as disclosure in the ESG Report and in forming a continued, long-term process based on TCFD principles, including all financial activities at the Bank, as well as formulation of stress scenarios.

As for loans, the Bank has reviewed, with assistance from external advisors, the implications of environmental risks as an integral part of credit risks (from financial, legal and insurance aspects). Consequently, the Bank has set policy on environmental risk management in extending credit, which is the most relevant, significant risk impacted by entities with a potential to create pollution and environmental hazards.

As part of this policy, the Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when extending credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.

This policy, as part of the Bank's risk management and control process, takes into account not only considerations based on customer quality, repayment capacity, financial stability, liquidity, reliability, long standing with the Bank, account standing, collateral quality and so forth, but also environmental considerations, if they are material, that include the potential for environmental impact due to borrower activity and the potential for environmental impact on their regular activity. The policy on environmental risk in lending is approved annually by the Board of Directors, as part of the Bank's policy documents, as part of the Board's role in setting risk policy for the Bank, including environmental risks, in conformity with Bank strategy.

Identification and mapping of environmental risks to which the Bank is exposed

Managing exposure to environmental risks includes these major components:

- Identification and mapping – the Bank has mapped sectors with material potential for environmental risk, including climate risk, including various sectors in energy, industry, transportation, desalinization, mining and quarrying. The list of economic sectors used to classify Bank customers has been reviewed with help from external advisors. This review included sorting of all economic sectors by the extent of their impact on environmental and climate aspects as follows: waste water, hazardous materials, noise, radiation, waste, soil, air, smell, asbestos, CO_2 emissions. This mapping is periodically reviewed
- and adjusted based on local and international guidelines, regulations and standards issued and based on experience gained in this area.
- Estimating the impact of environmental risks – risk that meets the specified threshold criteria, is carried out, *inter alia,* through the following: Property valuation (based on criteria for identification of land and properties which

require reference to environmental aspects), material information included on financial statements, information obtained from customers, reports to the Ministry of Environmental Protection. For large-scale financing (as percentage of Bank capital) of real estate projects and land, an environmental review is conducted when there are positive indications of environmental risk, according to the list of criteria specified by the Bank. For very large-scale infrastructure ventures (construction and new construction) where financing is arranged by the Bank, environmental assessment with emphasis on environmental hazards and compliance with applicable regulation. In this regard: Requirement for the technical / environmental advisor to refer to environmental impact of the venture and means to minimize risk, compliance with environmental regulatory requirements, objective and future uses of the venture, as well as operational measures to minimize environmental risk and climate risk. As required, the Bank is assisted by external advisors for reference and cost estimation.

- Loans to economic sectors with material environmental impact – as part of material loan applications by companies in economic sectors identified as having material environmental impact, reference is made to environmental risks which may affect loan repayment capacity, such as compliance with regulatory provisions, material environmental costs and legal proceedings involving the company, which are weighted as part of the overall customer risk assessment.
- Use of environmental databases – as part of incorporating environmental risks into the Bank's work, an extensive list has been created of various databases related to environmental protection, to assist business entities as required.

Corporate governance and risk management at the Bank

Management of environmental risks and climate risks is specifically discussed by the Board of Directors' Risk Management Committee, which advises the Bank Board of Directors on risk management – in similar fashion to most of the material risks. The status of ESG risk management is reported semi-annually to the Board of Directors' Risk Management Committee and annually to the Board of Directors. In 2022, the status of addressing ESG aspects was presented and the Bank's policy document on management and control of ESG risk was discussed and approved.

Moreover, management of environmental risk and climate risk is implemented through the ESG Steering Committee, headed by the Manager, Human Capital, Resources and Operations Division and attended by managers of the different divisions. The role of the Committee is to lead policy, activity, control and reporting in conjunction with promoting ESG across all Bank operations. The Committee convenes once per quarter and reports to Bank management on progress made and on improvement in ESG performance.

Furthermore, an administration was created to assist in the preparation process for reporting on climate and environmental risk in conformity with international practices (TCFD). This administration consists of three teams: the passive account and opportunity identification team, the credit team and the risk management team. The administration includes representatives from various Bank divisions, review the implementation of climate and environmental aspects in business activity with Bank customers, and their impact on credit risk and on opportunities in this field. As part of risk management, the Bank strives to realize business opportunities in environmental and climate areas, and is acting to develop environmental products. Thus, the Bank extends environmental loans and strives to expand it including, *inter alia*, loans for development of green energy, public transportation, waste processing and recycling, electric vehicles and so forth.

Moreover, the administration also reviews the implementation of Supervisor of Banks' directive and incorporation of common methodologies for mapping, monitoring and reporting on these aspects.

For more information about Bank activity, see the ESG Report on the Bank website:

-Hyperlink Removed- >> about the bank >> investor relations

Policies and critical accounting estimates

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

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

As from January 1, 2022, the Bank applies generally acceptable accounting practices by US banks with regard to measurement of credit losses from financial instruments, as set forth in topic 326 of the codification (ASC 326) "Financial instruments – credit losses".

As part of the application of this standard, the Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed for an appropriate provision to cover expected credit losses with regard to bonds held to maturity and the portfolio of bonds available for sale and certain off-balance sheet credit exposures.

The estimated provision for expected credit losses is calculated over the contractual term of the financial asset, taking into account estimated early repayment.

In developing the estimated expected credit losses, the Bank accounted for the effects of past events, current terms and conditions and reasonable forecasts which can be founded about collectability of the financial assets.

In general, calculation of the provision for expected credit losses is estimated on group basis when assets have similar risk attributes. These attributes include the following: (1) Credit score or rating, either internal or external; (2) risk rating or risk classification; (3) type of financial asset; (4) type of collateral; (5) size; (6) borrower's operating sector.

For each group of financial assets with similar risk attributes, the Bank calculates the provision for expected credit losses using one of the methods for measurement of such provision as allowed by the standard, which the Bank expects should result in the best estimate of provisions for credit losses.

In order to estimate expected credit losses over the contractual terms of the assets, the Bank relies on historical information, reviewing the need to adjust such historical information to reflect the extent to which current conditions and reasonable forecasts which can be founded differ from those in the period when the historical information was assessed.

When the reasonable period that may be founded, as determined by the Bank, is shorter than the duration of the financial asset, the Bank resumes use of historical information not adjusted for current economic conditions nor for expectations of future economic conditions, such as: change in unemployment rate, asset values, commodity values, arrears and so forth. The return to information about historical losses may be in one of the following methods: (1) Immediate return; (2) return on straight line basis; (3) use of another logical and methodical basis.

Sensitivity of provisions for credit losses to changes in economic conditions is due to a significant number of connections and mutual effects: Effect on certain customers who cannot meet their obligations, and consequently subject to a specific provision; effect on certain customers who are facing difficulties that require classification as inferior or under special supervision, and consequently the group-based provision with respect there to has increased; effect on the additional qualitative component of the group-based provision, through parameters of growth and unemployment that are part of the model; additional effect on the additional qualitative component, through other parameters affected by unemployment and growth, such as the number of Watchlists and average rating of customers and other effects not included in the models, if any, based on exercise of discretion.

Expenses with respect to credit losses in 2023 amounted to NIS 1,463 million, compared to NIS 532 million in 2022. The increase in provisions in 2023 is mostly due to adjustments made by the Bank to components of group-based provision for credit losses calculated on qualitative basis, recognized so as to reflect the increase in credit risk in the market due to the war started on October 7, 2023 with respect to customers resident in the conflict regions which may face difficulties, and to macro-economic and other developments which may affect everyone in Israel. This also reflects the risk potential due to customers who were granted deferment of their loan payments for a specified period, though no material indicators of increase in this risk have been seen to date. Upon conclusion of the war, these components of the group-based provision are expected to decrease, other than amounts to be recognized, as required, with respect to specific customers who may be in difficulty due to the war.

In order to establish the provision with respect to impact of the war, the Bank conducted independent sensitivity analysis of potential effects of deterioration in macro-economic parameters on default rates. The group-based provision recognized by the Bank with respect to uncertainty due to the war, is similar to total loss under the stress scenario of short-term decline by 7%-8% in GDP, a further 1% increase in Bank of Israel interest rate and in mortgage interest, and a rise in unemployment to 9%. Analysis of the estimated sensitivity to various parameters and to further deterioration in the macro-economic situation, shows that a further 1% decrease in GDP would increase the provision by NIS 15 million, whereas a further 1% increase in unemployment would increase he provision by NIS 25 million.

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.

See Note 1.E.7 to the financial statements for additional information.

Derivative instruments

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivative instruments using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivative instruments based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or trading bonds of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information, see Note 1.E.16 to the financial statements. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employees' rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government bonds in Israel plus the average yield spread for corporate bonds rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government bonds, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employees' rights.

Group liabilities for employees' rights calculated based on an actuarial model amount to NIS 2,433 million (including provision for employees' retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employees' rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase in discount rate	1% change in annual payroll increase		1% change in departure rate before retirement age	
		Increase	Decrease	Increase	Decrease
Severance pay provision	(107)	107	(91)	126	(123)
Budgetary pension	(12)	-	-	-	-
Other	(79)	6	(5)	(4)	4

For more information, see Note 1.E.12 to the financial statements.

Provisions with respect to contingent liabilities and lawsuits

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 26C provides disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Law, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal control

In the quarter ended December 31, 2023, there was no change to internal control over financial reporting at the Bank, which materially affected, or which may be reasonably expected to affect internal control over financial reporting at the Bank.

In conformity with the Supervisor of Banks' directives regarding adoptions of Section 404 of the Sarbanes-Oxley Law, this report includes certification with respect to responsibility of the Board of Directors and management for setting and maintaining appropriate internal control over financial reporting and assessment by management of the effectiveness of internal control over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's Independent Auditor is also included, with regard to appropriateness of internal control over financial reporting at the Bank in conformity with relevant standards of the Public Company Accounting Oversight Board (PCAOB).

M. Vidman	Lari Moshe
Moshe Vidman	**Moshe Lari**
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan, March 11, 2024

Certification

I, MOSHE LARI, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2023 (hereinafter: "the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Lari Moshe

Moshe Lari

President & CEO

Ramat Gan, March 11, 2024

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification by the Chief Accountant – Disclosure and internal controls

As of December 31, 2023

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2023 (hereinafter: "the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv

Vice-president Chief Accountant

Ramat Gan, March 11, 2024

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2023 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management assumes that as of December 31, 2023, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2023 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co., as noted in their report on page 129, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2023.

Moshe Vidman	Moshe Lari	Menahem Aviv
Chairman of the Board of Directors	President & CEO	Vice-president Chief Accountant

Approval date:
Ramat Gan, March 11, 2024

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2023, based on criteria stipulated by the integrated framework for internal controls published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 4.61% and 5.44%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2023 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We are of the opinion that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2023 based on criteria stipulated in the integrated framework for internal controls published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2023 and 2022 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidates statements of cash flows for each of the three years ended December 31, 2023, and our report dated March 11, 2024 includes an unqualified opinion on the aforementioned financial statements, based upon our audit and on the reports of other independent auditors, as well as drawing of attention to claims filed against the Bank and motions to approve them as class actions. Based on our audit and on reports of other Independent Auditors.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 11, 2024

Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2023 and 2022, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2022. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 4.61% and 4.14% of total consolidated assets as of December 31, 2023 and 2022, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 5.44%, 5.63% and 5.79%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2023, 2022 and 2021, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was prescribed by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We are of the opinion that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above consolidated financial statements present fairly, in all material respects, the financial position – of the Bank and its subsidiaries as of December 31, 2023 and 2022, and the results of operations, changes in shareholders' equity and cash flows of them for each of the three years in the period ended December 31, 2023, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

We have also audited in accordance with Public Company Accounting Oversight Board (PCAOB) standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2023, based on criteria specified in the integrated framework for internal controls fo the Committee of Sponsoring Organizations Commission of the Treadway (COSO), and our report dated March 11, 2024 included an unqualified opinion on the effectiveness of internal controls over financial reporting at the Bank.

Key audit matters

The key audit matters listed below have been, or needed to be, communicated to the Bank's Board of Directors and, in our professional opinion, were most significant in audit of the consolidated financial statements for the current period. These matters include, *inter alia*, any matter which: (1) Refers or may refer to material items or disclosures on the financial statements; and (2) Our discretion with regard there to was especially challenging, subjective or complex. These matters were resolved in our audit and in forming our opinion of the consolidated financial statements as a whole. Communicating these matters below does not alter our opinion of the consolidated financial statements as a whole, and we do not use these to provide a separate opinion of these matters, nor of the items or disclosures to which they refer.

Provision for credit losses – classification and provision with respect to debts assessed on individual basis

As set forth in Notes 13 and 30 to the consolidated financial statements, the provision for credit losses with respect to debts assessed on individual basis amounted, as of December 31, 2023, to NIS 1,701 million.

The process of assessment of the loss inherent in the loan portfolio, with respect to substantial debts assessed on individual basis, is based on significant estimates associated with uncertainty, and on subjective assessments – both in identification and classification of debts as problematic debts or debts in good standing, and in measuring individual provisions. Changes in these estimates or assessments may have material impact on the individual provision for credit losses presented on the Bank's financial statements.

Given (1) the extensive discretion required of Bank management to identify the aforementioned problematic debts, based on specific criteria which may indicate that debt has become problematic, the estimated potential or current impact to the borrower's primary debt repayment source, the borrower's estimated cash flow for full repayment of the debt when due, and assessment of other financial data for the borrower which may provide indications for existence of current or potential weaknesses of the borrower, (2) discretion exercised by Bank management in calculating the individual provision for future cash flows expected to be used for debt service out of borrower operations, and realization of collateral and guarantees, and (3) audit of the provision for credit losses, which require significant discretion by the Independent Auditor as well as knowledge and experience, in order to review the reasonability of assumptions and data used by management in estimating the provision, we have identified the classification of debts reviewed on individual basis and the estimates used as basis for calculation of the individual provision for credit losses as a key audit matter. The response to the aforementioned key audit matter included application of procedures and assessment of audit evidence with respect to forming our opinion of the financial statements as a whole.

We have applied audit procedures with respect to this key matter, including review of the effectiveness of relevant controls for review of debt classification and for the individual provision for credit losses with respect to non-accruing debt. Furthermore, these procedures included, inter alia, review of the process conducted by Bank management with regard to debt classification and estimating the individual provision for credit losses, including (1) Identification of debts with problematic features and review of appropriateness of classification of debts in good standing for a sample of debts, and (2) review of assumptions for cash flows used to determine the provision for credit losses for a sample of debts classified as non-accruing debt, based on review of the reported outcome for the borrower, value of their collateral and understanding the status of debt collection proceedings or debt re-structuring by the Bank.

Provision for credit losses – Provision for expected credit losses assessed on group basis

As set forth in Note 1, the Bank applies as from January 1, 2022 US GAAP with regard to expected credit losses, published in standards update ASU 2016-13.

As set forth in Notes 13 and 30 to the consolidated financial statements, the provision for credit losses with respect to debts assessed on group basis amounted, as of December 31, 2023, to NIS 2,368 million.

The group-based provision for credit losses reflects the assessment by Bank management of expected credit losses over the remaining term of the loan portfolio, with significant use of forward-looking information that reflects forecasts regarding future economic events. Calculation of the provision for expected credit losses on group basis includes breakdown of credit by groups of financial assets having similar risk attributes. For each group of financial assets, the Bank calculated the provision for expected credit losses, based on historical information, adapted for current conditions, Including effects of the Iron Swords war
for early repayment forecasts, collection capacity of the financial assets and forecasts regarding future economic events, so as to reflect the extent to which current conditions and future forecasts would differ from past conditions. Change in these estimates and assessments may materially impact the provision for credit losses estimated on group basis, as presented on the Bank's financial statements.

In view of (1) the significant judgment and assessments by Bank management in development of models for assessment of expected credit losses based on forecasts regarding future economic events over the remaining term of such credit, early repayment forecasts and collection capacity of the financial assets; and (2) audit of the provision for credit losses, which requires significant judgment to be exercised by the Independent Auditor, as well as know-how and experience, in order to review the reasonability of the assessments and estimates used by management in determining the estimated provision, we have identified the provision for credit losses on group basis as a key matter in this audit. The response to the aforementioned key audit matter included application of procedures and assessment of audit evidence with respect to forming our opinion of the financial statements as a whole.

We have applied audit procedures with respect to this key matter, including review of the effectiveness of relevant controls for the process of calculating the provision for credit losses with respect to debts assessed on group basis, including controls with regard to validation and confirmation of relevant models and forecasting with regard to future economic events. Moreover, these procedures included, *inter alia*, review of the process conducted by Bank management in assessing the provision for credit losses on group basis, which included: (1) Assessment of appropriateness of the models, assumptions included in these models and the methodology used to calculate the forecast regarding forward-looking events With review of the effects of the Iron Swords war on assumptions and methodology, and the provision with respect to debts assessed on group basis in general; (2) Review whereby the model calculations used in calculating the provision with respect to debts assessed on group basis are appropriate; (3) Review of integrity and accuracy of data used to calculate the estimated provision with respect to debts assessed on group basis; The procedures we have carried out also involved experts, having expertise and know-how, who helped us assess the appropriateness of the models used in forecasting, methodologies and macro-economic variables.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Ramat Gan, March 11, 2024
We have been serving as the Bank's Independent Auditor since 1995.

Bank Mizrahi Tefahot
Financial Statements

2023

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Consolidated statement of profit and loss

For the year ended December 31

Reported amounts (NIS in millions)

	Note	2023	2022	2021
Interest revenues	2	24,005	16,195	10,557
Interest expenses	2	12,030	5,955	2,872
Interest revenues, net	2	11,975	10,240	7,685
Expenses (revenues) with respect to credit losses	13.30	1,463	532	(278)
Interest revenues, net after expenses with respect to credit losses		**10,512**	**9,708**	**7,963**
Non-interest revenues				
Non-interest financing revenues	3	511	754	401
Commissions	4	2,028	2,052	1,947
Other revenues	5	266	622	287
Total non-interest revenues		**2,805**	**3,428**	**2,635**
Operating and other expenses				
Payroll and associated expenses	6	3,544	4,029	3,536
Maintenance and depreciation of buildings and equipment	16	1,098	1,012	1,002
Other expenses	7	927	1,132	1,030
Total operating and other expenses		**5,569**	**6,173**	**5,568**
Pre-tax profit		7,748	6,963	5,030
Provision for taxes on profit	8	2,669	2,356	1,730
After-tax profit		**5,079**	**4,607**	**3,300**
Share of profits of associated companies, after tax effect	15	1	5	(10)
Net profit:				
Before attribution to non-controlling interests		5,080	4,612	3,290
Attributable to non-controlling interests		(170)	(140)	(102)
Attributable to shareholders of the Bank		**4,910**	**4,472**	**3,188**
Earnings per share[(1)] (in NIS)	9			
Basic earnings				
Net profit attributable to shareholders of the Bank		**19.07**	**17.47**	**12.47**
Diluted earnings				
Net profit attributable to shareholders of the Bank		**19.00**	**17.38**	**12.35**

(1) Share of NIS 0.1 par value.

The accompanying notes are an integral part of the financial statements.

Moshe Vidman	**Moshe Lari**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president Chief Accountant

Approval date:
Ramat Gan, March 11, 2024

Consolidated statement of comprehensive income

For the year ended December 31

Reported amounts (NIS in millions)

	Note	2023	2022	2021
Net profit:				
Before attribution to non-controlling interests		5,080	4,612	3,290
Attributable to non-controlling interests		(170)	(140)	(102)
Net profit attributable to shareholders of the Bank		**4,910**	**4,472**	**3,188**
Other comprehensive income (loss) before taxes	10			
Adjustments for presentation of available-for-sale securities at fair value, net		150	(809)	25
Adjustments from translation of financial statements of investments in associated companies[(1)]		-	-	(1)
Net gains (losses) with respect to cash flows hedging		5	18	(33)
Adjustments of liabilities with respect to employees' benefits[(2)]		(23)	517	(18)
Total other comprehensive income (loss), before tax		**132**	**(274)**	**(27)**
Related tax effect		(44)	70	7
Other comprehensive income (loss) after taxes[(3)]				
Other comprehensive income (loss), before attribution to non-controlling interests		88	(204)	(20)
Less other comprehensive income (loss) attributed to non-controlling interests		(16)	7	7
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**104**	**(211)**	**(27)**
Comprehensive income:				
Before attribution to non-controlling interests		5,168	4,408	3,270
Attributable to non-controlling interests		(154)	(147)	(109)
Comprehensive income attributable to shareholders of the Bank		**5,014**	**4,261**	**3,161**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.

(2) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.

(3) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

The accompanying notes are an integral part of the financial statements.

Consolidated balance sheet

As of December 31

Reported amounts (NIS in millions)

	Note	2023	2022
Assets			
Cash and deposits with banks	11	86,550	93,673
Securities[(1)(2)]	12	23,071	15,144
Securities borrowed or purchased in resale agreements	27	106	315
Loans to the public	13.30	329,415	310,356
Provision for credit losses	13.30	(4,069)	(2,884)
Loans to the public, net	13.30	325,346	307,472
Loans to Governments	14	480	318
Investments in associated companies	15	242	127
Buildings and equipment	16	1,531	1,503
Intangible assets and goodwill	15.D	148	178
Assets with respect to derivatives	28	6,282	5,789
Other assets	17	4,448	3,773
Total assets		**448,204**	**428,292**
Liabilities and Equity			
Deposits from the public	18	358,553	344,514
Deposits from banks	19	4,571	6,994
Deposits from the Government		71	47
Bonds and subordinated notes	20	37,070	33,287
Liabilities with respect to derivatives	28	7,367	5,214
Other liabilities [(3)]	30.E, 21	11,869	13,368
Total liabilities		**419,501**	**403,424**
Shareholders' equity attributable to shareholders of the Bank		27,461	23,780
Non-controlling interests		1,242	1,088
Total equity	**24**	**28,703**	**24,868**
Total liabilities and equity		**448,204**	**428,292**

(1) Of which: NIS 19,121 million recognized on the financial statements at fair value (on December 31, 2022: NIS 11,241 million).
(2) For more information with regard to securities pledged to lenders, see Note 27.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 201 million (on December 31, 2022: NIS 220 million).

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity

For the year ended December 31

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[2]	Retained earnings[3]	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2020	**3,445**	**87**	**3,532**	**(276)**	**15,548**	**18,804**	**865**	**19,669**
Net profit for the period	-	-	-	-	3,188	3,188	102	3,290
Dividends paid[4]	-	-	-	-	(1,236)	(1,236)	-	(1,236)
Benefit from share-based payment transactions	-	41	41	-	-	41	-	41
Realization of share-based payment transactions[5]	52	(52)	-	-	-	-	-	-
Dividends attributable to non-controlling interests in subsidiary	-	-	-	-	-	-	(15)	(15)
Other comprehensive income (loss), net, after tax	-	-	-	(27)	-	(27)	7	(20)
Balance as of December 31, 2021	**3,497**	**76**	**3,573**	**(303)**	**17,500**	**20,770**	**959**	**21,729**
Opening balance adjustment for effect of initial application of US GAAP with regard to credit losses[6]	-	-	-	-	(355)	(355)	(3)	(358)
Adjusted balance as of January 1, 2022 after initial application	3,497	76	3,573	(303)	17,145	20,415	956	21,371
Net profit for the period	-	-	-	-	4,472	4,472	140	4,612
Dividends paid[4]	-	-	-	-	(941)	(941)	-	(941)
Benefit from share-based payment transactions	-	45	45	-	-	45	-	45
Realization of share-based payment transactions[5]	22	(22)	-	-	-	-	-	-
Dividends attributable to non-controlling interests in subsidiary	-	-	-	-	-	-	(15)	(15)
Other comprehensive income (loss), net, after tax	-	-	-	(211)	-	(211)	7	(204)
Balance as of December 31, 2022	**3,519**	**99**	**3,618**	**(514)**	**20,676**	**23,780**	**1,088**	**24,868**
Net profit for the period	-	-	-	-	4,910	4,910	170	5,080
Dividends paid[4]	-	-	-	-	(1,390)	(1,390)	-	(1,390)
Benefit from share-based payment transactions	-	57	57	-	-	57	-	57
Realization of share-based payment transactions[5]	37	(37)	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	104	-	104	(16)	88
Balance as of December 31, 2023	**3,556**	**119**	**3,675**	**(410)**	**24,196**	**27,461**	**1,242**	**28,703**

(1) Share premium generated prior to March 31, 1986.
(2) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).
(3) For details on various limitations on dividend distributions, see Note 24.
(4) On March 28, 2023, June 1, 2023, August 29, 2023, December 12, 2023, March 15, 2022, August 30, 2022, December 13, 2022 dividends were paid amounting to NIS 326, 410, 489, 165, 272, 316 and 353 million, respectively, in conformity with resolution by the Bank Board of Directors.
(5) In 2023, the Bank issued 951,533 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 2,878 ordinary shares of NIS 0.1 par value each. In 2022, the Bank issued 676,867 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 7,450 ordinary shares of NIS 0.1 par value each. In 2021, 1,432,671 ordinary shares of NIS 0.1 par value were issued for exercise of options pursuant to the Employee Stock Option Plan.
(6) Cumulative effect of initial application of US GAAP with regard to financial instruments – credit losses (ASU 2016-13) and updates there to. See also Note 1.C.1.
- On March 11, 2024, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 209.4 million, or 20% of earnings in the fourth quarter of 2023. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2024.

The accompanying notes are an integral part of the financial statements.

Statement of cash flows – consolidated

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Cash Flows from Current Activity			
Net profit before attribution to non-controlling interests	5,080	4,612	3,290
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(1)	(5)	10
Depreciation of buildings and equipment (including impairment)	411	332	339
Expenses with respect to credit losses	1,463	532	(278)
Gain from sale of securities available for sale and shares not held for trading	105	14	(111)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	9	(103)	26
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(7)	45	(97)
Gain from sale of buildings and equipment	-	(241)	(18)
Impairment of securities held for sale and shares not held for trading	15	45	9
Expenses arising from share-based payment transactions	57	45	41
Deferred taxes, net	(285)	(408)	78
Change in employees' provisions and liabilities	(169)	138	1,111
Adjustments with respect to exchange rate differentials	(181)	(463)	52
Gain from sale of loan portfolios	-	(8)	-
Accrual differences included with investment and financing operations	(2,040)	203	324
Net change in current assets			
Assets with respect to derivatives	(488)	(2,119)	858
Securities held for trading	(832)	(147)	815
Other assets, net	(360)	(15)	259
Net change in current liabilities			
Liabilities with respect to derivatives	2,153	1,461	(1,753)
Other liabilities	(1,398)	(2,163)	(824)
Net cash provided by current operations	**3,532**	**1,755**	**4,131**

The accompanying notes are an integral part of the financial statements.

Statement of cash flows – consolidated – continued

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Cash flows from investment activities			
Net change in deposits with banks	215	(202)	499
Net change in loans to the public	(15,867)	(36,246)	(24,087)
Net change in loans to Governments	(162)	159	136
Net change in securities loaned or acquired in resale agreements	209	1,017	(1,132)
Acquisition of bonds held to maturity	(800)	(1,821)	(447)
Proceeds from redemption of bonds held to maturity	573	851	1,247
Purchase of securities available for sale and shares not held for trading	(10,799)	(15,233)	(12,078)
Proceeds from sale of securities available for sale and shares not held for trading	7,880	17,132	8,316
Proceeds from redemption of securities available for sale	1,371	222	4,320
Proceeds from sale of loan portfolios	25	1,943	234
Acquisition of initially consolidated subsidiary – Union Bank	-	-	-
Purchase of loan portfolios – public	(2,643)	(2,306)	(1,778)
Purchase of loan portfolios – Government	-	-	-
Acquisition of buildings and equipment	(438)	(391)	(336)
Proceeds from sale of buildings and equipment	-	532	35
Purchase of shares in associated companies	(30)	(61)	(49)
Proceeds from realized investment in associated companies	9	8	1
Net cash used in investment activities	**(20,457)**	**(34,396)**	**(25,119)**
Cash flows provided by financing operations			
Net change in deposits from the public	10,330	36,590	23,700
Net change in deposits from banks	(2,423)	2	3,213
Net change in deposits from Government	24	(34)	11
Issuance of bonds and subordinated notes	7,706	5,038	7,304
Redemption of bonds and subordinated notes	(4,411)	(10,258)	(2,741)
Dividends paid to shareholders	(1,390)	(941)	(1,236)
Dividends paid to external shareholders in subsidiaries	-	(15)	(15)
Net cash provided by financing operations	**9,836**	**30,382**	**30,236**
Increase (decrease) in cash	(7,089)	(2,259)	9,248
Cash balance at beginning of the period	92,865	94,661	85,465
Effect of changes in exchange rate on cash balances	181	463	(52)
Cash balance at end of the period	**85,957**	**92,865**	**94,661**
Interest and taxes paid / received			
Interest received	21,737	11,577	10,938
Interest paid	9,782	5,416	2,393
Dividends received	14	36	20
Income taxes received	21	140	-
Income taxes paid	3,262	2,211	1,471
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	1	1	13
Sales of buildings and equipment	-	-	2

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) On March 11, 2024, the Bank's Board of Directors authorized publication of these consolidated financial statements as of December 31, 2023.

2) The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by banks in the United States. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).
When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by banks in the United States.

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances stated in the directives – present annual financial statements on a consolidated basis only.
In conformity with approval of the Supervisor of Banks, the Bank presents its annual financial statements on a consolidated basis only.
For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 37 to the financial statements.

4) Definitions
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards determined by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.

"Generally accepted accounting principles for banks in the United States" – Accounting rules which American banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in FAS 168 (ASC 105-10) – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in the American FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team of the US banking supervision authorities, with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.

"FASB" – Financial Accounting Standards Board in the USA.

"The Bank" – Bank Mizrahi-Tefahot Ltd.

"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.

"Bank Group" – The Bank and its subsidiaries.

"Associated companies" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associated companies is included in the financial statements using the equity method.

"Investees" – Subsidiaries and associated companies.

"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.

"Functional currency" – The currency of the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.

Note 1 – Reporting Principles and Accounting Policies – continued

"Presentation currency" – The currency in which the financial statements are presented.

"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchasing power of Israeli currency.

"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.

"Cost" – Cost in reported amount.

"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Directives.

B. Preparation basis of the financial statements

1) Principles of financial reporting
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. See above in section A.2).

2) Functional currency and reporting currency
The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the principal economic environment in which then Bank operates. For information about the functional currency of overseas banking affiliates, see section E.1 below.

3) Measurement basis
The financial statements were prepared based on historical cost, except for the following items:
- Financial derivative instruments and other financial instruments that are measured at fair value through profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Liability with respect to share-based payment;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities;
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employees' benefits;
- Investments in associated companies.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact implementation policies and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.
When formulating accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In its judgment when determining these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.
These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Impact of military and macro-economic developments on financial reporting

On October 7, 2023, war was declared following a sudden murderous rampage into settlements close to the Gaza Strip border. This was concurrently with the start of military escalation on the Northern border.

Due to the situation, both banks and the Supervisor of Banks have taken measures to provide relief to customers. These include relief provided to Bank customers, in order to help customers who face difficulties due to the situation. Such relief includes, *inter alia*, freezing loan payments for 3 months, waiving interest for frozen payments for those living in conflict regions and classified as First Circle, as well as other relief provided to specific demographics, including waiver of mortgage payments, waiver of interest on debit balance in checking accounts, discounted bank fees and bonuses for businesses. The Bank also allocated budgets to support residents in affected areas. In conformity with the Bank of Israel's letter dated December 26, 2023, as of the end of the year, this outline and categories of those eligible for such relief were extended for a further three months.

The Bank's accounting policy with regard to these benefits recognizes the benefit cost based on the amount and timing of payment by the customer. Thus, deferred payments in interest-free tracks and interest-free business loans so not accrue interest revenues over the deferment / loan term. With respect to waiver of mortgage payments, upon the resolution date, an expense with respect to the full waiver amount as of the financial statements date is recognized under Interest Revenues, Net.

The total impact of the aforementioned relief and benefits on the Bank's financial statements for the fourth quarter of 2023 amounted to NIS 50 million.

On October 18, 2023, the Supervisor of Banks issued a letter containing supervisory emphasis regarding handling of problematic debt and public reporting. According to this circular, counting of days in arrears would be discontinued for customers subject to payment freezing arrangements, for mortgages or for commercial loans, for up to three months at this stage. These financial statements include quantitative disclosure with regard to debt subject to such new repayment arrangements.

On November 9, 2023, the Supervisor of Banks issued another letter, containing further emphasis for public reporting for the third quarter of 2023, including the following requirements:

- Inclusion of the expected effect of uncertainty dur to the war in calculation of the provision for credit losses on the financial statements for the third quarter of 2023.
- Description to be included in reports of evolution of the provision and how such implications and uncertain conditions have been accounted for in determination of the provision, and results of sensitivity analysis for changes to assumptions.
- Description of any material effects on results, comprehensive income, financial standing, capital ratio, leverage ratio and liquidity coverage ratio.
- Description of effects on major risks.
- Description of action taken by the bank to address these developments and to support the needs of customers and employees, including estimated cost of such measures.
- Inclusion of disclosure with regard to development of credit risk by industrial sector.
- Inclusion of quantitative disclosure of the state of exposures and scenarios with regard to interest and currency risks, as of soon prior to the report issue date, including reference to the effect of assumptions.

On January 2, 2024, the Supervisor of Banks issued further highlights for disclosure on reports to the public for 2023, stipulating continued implementation of the requirements for the third quarter as aforesaid, and a further requirement to provide disclosure of major activities undertaken by the Bank to address the impact of the war and to support customer and employee needs, including disclosure of debt with amended terms and information about credit extended as part of addressing the implications of the war.

D Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

For reported periods starting on or after January 1, 2023 (unless otherwise noted), the Bank applies new directives and accounting standards on matters listed in updated standard 2022-01 of the codification, with regard to improvements to application of fair value hedge accounting using the portfolio layer method.

Note 1 – Reporting Principles and Accounting Policies – continued

On March 28, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-01 regarding improvements to application of fair value hedge accounting using the layer method in the portfolio, designed to best align hedge accounting with the Bank's risk management policy (hereinafter: "the Update").

Some of the amendments included in this update are as follows:

- Expansion of the Final Layer method: The update allows for hedging of multiple layers in a single closed portfolio;
- Expansion of scope of the portfolio layer method: The update allows this method to also be applied to financial assets which may not be repaid early;
- Hedging instruments: The update clarifies that a derivative whose par value changes over time may be designated as a hedging instrument, such that this hedge would be considered a single-layer hedge, and the number of hedged layers would be consistent with the number of designated hedging relations;
- Basis adjustments: The update clarifies the treatment of basis adjustments in hedging using the portfolio layer method, and adds disclosure requirements;
- Credit losses: The update disallows accounting for basis adjustments of existing hedging relations, when determining credit losses for hedged items.

The directives would be implemented as from January 1, 2023.
Application of these directives had no material impact on the financial statements.

E. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate in effect as of the transaction date.
Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.
Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate effective as of the date on which the fair value is determined.
Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Gains or losses from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date, including with respect to exchange rate differences with respect to available-for-sale debt instruments which, according to the Public Reporting Directives, would continue to be recognized on the statement of profit and loss through January 1, 2025 (as stipulated in transitional provisions), recognized on the statement of profit and loss gains or losses from translation differences (non-interest financing revenues), except for:

- The effective portion of gain or loss with respect to a hedging instrument in a cash flow hedge.
- Exchange rate differentials with respect to items that are part of a net investment.

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as those whose functional currency is the same as the Bank's (NIS). Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Note 1 – Reporting Principles and Accounting Policies – continued

Below is information about major official exchange rates, the Consumer Price Index and changes:

	As of December 31			Change rate in %		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
Consumer Price Index:						
CPI for December (points)	248.6	241.4	229.4	3.0	5.3	2.8
Known CPI for November (points)	248.8	240.8	228.7	3.3	5.3	2.4
Exchange rate of:						
USD (in NIS)	3.627	3.519	3.110	3.1	13.2	(3.3)
EUR (in NIS)	4.012	3.753	3.520	6.9	6.6	(10.8)

2) Consolidation basis

A. Subsidiaries in which the Bank does not hold more than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Directives.

For more information about the balance of the investment in investee companies and the contribution to net profit attributable to shareholders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included in the consolidated financial statements from the date control is achieved and through the date control is terminated. Accounting policies of subsidiaries were modified as needed, to align them with the accounting policies of the Bank.

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders:

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the owners of the Bank and to non-controlling interests, even if this results in a negative balance of non-controlling interests.

D. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

3) Investment in associated companies

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.
Investment in associated companies is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs.
Investment in an associated company is evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such investment is not recoverable. Impairment is recognized when impairment is other-than-temporary in nature.
The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of investee companies treated according to the equity method. After required adjustments to align accounting policies with those of the Group, from the date when material influence is achieved through the date when material influence is discontinued.

Note 1 – Reporting Principles and Accounting Policies – continued

4) Offset of assets and liabilities

The Bank offsets assets and liabilities arising from the same counter-party and will present their net balance on the balance sheet, when all of the following conditions are met:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities.
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently.
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, it is Bank policy to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for extending credit, for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

5) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-accruing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-accruing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period on the outstanding recorded debt balance at the contractual interest rate. Interest revenues on a cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.

   When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to residential mortgages are recognized in the statement of profit and loss based on actual collection.

2) Securities – see section 6 below.

3) Financial derivative instruments – see section 16 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project support, are recognized on a relative basis over the transaction term.

C. Commissions for loan generation and direct costs of loan generation are recognized over the term of the loan, as adjustment to return, except in case of re-structuring of problematic debt. If the commitment expired un-realized, the commissions are recognized upon expiration.

D. Credit allocation commissions are treated in conformity with the likelihood of realization of the commitment to extend credit. If it is highly unlikely, the commission is recognized on straight line basis over the commitment period, otherwise the Bank defers recognition of such commission revenues until the commitment is realized or until it expires, whichever is sooner. If the commitment is realized, the commissions are typically recognized by way of adjustment to return over the term of the loan, as noted above. If the commitment expired un-realized, the commissions are recognized upon expiration.

E. Changes to terms and conditions of debt

   In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms of the loan. Accordingly, the Bank evaluates whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan

Note 1 – Reporting Principles and Accounting Policies – continued

currency. In such cases, all unamortized commissions and early repayment commissions collected from the customer with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

F. Early repayment commissions
Early repayment commissions are immediately recognized under Interest Revenues, except for such commissions included as part of net investment in the new loan, which are recognized as an adjustment of yield.

G. Other revenues and expenses – are recognized on the accrual basis.

6) Securities

A. Securities in which the Bank invests are classified as follows:

1) Bonds held to maturity – bonds which the Bank intends and is able to hold to maturity, except for bonds subject to early redemption or other disposal, such that the Bank would not recoup substantially all of its recognized investment. Bonds held to maturity are carried on the balance sheet at par value plus interest and linkage differentials and accrued exchange rate differentials, considering the relative share of premium or discount and net of loss with respect to other-than-temporary impairment.
2) Bonds available for sale – bonds not classified as bonds held to maturity or as securities held for trading. Bonds available for sale are carried on the balance sheet at fair value as of the reporting date. Any unrealized gains or losses from adjustment to fair value are not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income, except for loss with respect to other-than-temporary impairment. For securities which include embedded derivatives – see section 16.C below.
3) Securities held for trading – securities acquired and held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. Securities held for trading are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.
4) Shares not held for trading

   Shares that have an available fair value are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustment to fair value are charged to the statement of profit and loss.

   Shares for which no fair value is available are carried on the balance sheet at cost net of impairment, plus or minus observed price changes in ordinary transactions for similar or identical investments of the same issuer. Unrealized gains or losses from the adjustments to such observed price changes are recorded to the statement of profit and loss.

B. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit & loss when the Bank has the right to receive them, up to the amount of earnings accumulated since this investment was acquired.

C. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of hedging relations, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

D. With regard to calculation of fair value, see section 17 below.

E. Impairment:
Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically evaluates whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for bonds held to maturity), is of an other-than-temporary nature.

Note 1 – Reporting Principles and Accounting Policies – continued

To this end, the following indicators, inter alia, are evaluated:
- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Evaluation of conditions reflecting the financial standing of the issuing entity, including whether or not the impairment is due to individual reasons related to the issuer or to existence of any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:
- Bond sold prior to publication of the issue date to the public of the report for that period.
- Bond which, close to the issue date of the report to the public for that period, the Bank intends to sell within a short time.
- Bond is significantly impaired between the bond's rating on the date of acquisition by the Bank and its rating on the date of publication of the report for that period.
- Bond classified by the Bank as problematical after its acquisition.
- Bond which is in payment default after its acquisition.
- Bond whose fair value as of the end of the reported period and close to the issue date of the financial statements, was significantly lower than its amortized cost. Unless the Bank has solid objective evidence and careful analysis of all relevant factors, which prove with high certainty that impairment is of other than a temporary nature.

For this purpose, a significant rate is a rate higher than 20%. However, should the Bank have objective evidence that impairment is of a temporary nature, an exception may be made with regard to this rate.
If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written down to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are recognized to a separate section in equity under Cumulative Other Comprehensive Income, and are not recorded in profit and loss.

Securities – shares for which no fair value is available
In each reported period, the Bank conducts a qualitative assessment, taking into account impairment indications, in order to assess whether shares for which no fair value is available have been impaired. If this assessment shows impairment of the investment in shares, the Bank estimates the fair value of the investment in shares, to determine the amount of impairment loss.

7) Non-accruing debt, credit risk and provision for credit losses

Identification and classification of non-accruing debt (in lieu of non-impaired debt)

The Bank has specified procedures for identification of problematic credit and for classification of debt so as to distinguish between problematic debt, including non-accruing debt, and debt in good standing. According to these procedures, the Bank classifies all its problematic debt and off-balance sheet credit items under these classifications: special supervision, inferior or non-accruing. Debt classified as non-accruing debt, where based on current information and events it is expected that the Bank would not be able to collect all amounts due in conformity with contractual terms and conditions of the debt agreement.

For classification and treatment of problematic credit, the Bank distinguishes between the following:

A. Commercial credit with respect to debt with contractual balance over NIS 1 million

Decisions with regard to debt classification and the required provision are made based, inter alia, on the past-due status of the debt, assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, existence of collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

Note 1 – Reporting Principles and Accounting Policies – continued

In any case, such commercial debt is classified as non-accruing debt when its principal or interest is in arrears for 90 days or longer, unless the debt is well secured and is in collection proceedings, or if the debt has undergone restructuring of problematic debt.

As from the classification date as non-accruing debt, debt is treated as debt not accruing interest income (such debt is known as "non-accruing debt").

For more information about accounting write-off rules with respect to such debts, see section "Accounting write-off" later in this section.

B. Credit to individuals, residential mortgages and commercial credit with respect to debt with contractual balance below NIS 1 million

Decision on debt classification is based on the state of arrears of such debt. To this end, the Bank monitors the arrears days determined with reference to contractual repayment terms thereof.

Such debt, in arrears 90 days or longer, is classified as inferior debt when the Bank does not discontinue accrual of interest income, except for residential mortgages which are classified as debt not accruing interest income when principal or interest with respect there to is in arrears 90 days or longer.

For more information about accounting write-off rules with respect to such debts, see section "Accounting write-off" later in this section.

Policy on debt re-structuring and treatment of problematic debt under re-structuring

In order to determine whether a debt re-structuring conducted by the Bank constitutes re-structuring of problematic debt, the Bank conducts a qualitative review of all terms and conditions of the re-structuring and the circumstances thereof, in order to determine whether:

(1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank considers if there are any indications that the creditor is in duress upon the re-structuring date, or existence of a reasonable likelihood that the creditor would be in financial duress if not for the re-structuring.

The Bank also concludes that a concession was made to the debtor in conjunction with the arrangement, even if the contractual interest rate was increased in the arrangement – if one or more of the following exists:

- Due to re-structuring, the Bank is not expected to collect the entire debt amount (including interest accrued in conformity with contractual terms and conditions);
- The current fair value of collateral, for debts contingent on collateral, does not cover the contractual debt balance and indicates that the entire debt amount may not be collectable;

The Bank does not classify debt as restructured problematic debt, if the re-structuring results in insignificant delay in repayment considering the payment frequency, the contractual term to maturity and the original term to maturity of the debt. For this matter, if multiple arrangements took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous structurings in order to determine whether the deferral of payments is insignificant.

In general, re-structuring which results in delayed payments by 90 days or longer compared to the contract is considered a re-structuring that results in significant delay in repayment.

Treatment of re-structured debts and subsequent re-structuring

Debt with modified terms and conditions due to re-structuring of problematic debt is classified as non-accruing debt. Typically, re-structured problematic debt shall continue to be classified as non-accruing debt pending full repayment. However, under certain circumstances, when debt is restructured as problematic debt re-structuring and later on, the Bank and the debtor have signed an additional re-structuring agreement, the Bank is no longer required to treat the debt as restructured problematic debt if the following conditions are fulfilled:

A. The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.

B. According to terms of the subsequent re-structuring, the Bank did not grant a concession to the debtor (including no waiver of principal on cumulative basis as from the original loan origination date).

Note 1 – Reporting Principles and Accounting Policies – continued

Debt subject to revised terms under re-structuring of problematic debt may be classified as accruing or non-accruing debt as of the revision date.

Furthermore, debt classification as restructured problematic debt does not automatically require the debt to be classified as problematic. However, upon the revision date, the Bank re-evaluates the appropriate classification, considering all relevant factors for risk assessment, including financial difficulties of the debtor.

Furthermore, debt classification as restructured problematic debt does not automatically cause the debt to remain classified as problematic for its remaining term, even if the debt was classified as problematic prior to or upon the re-structuring date. Debt subject to re-structuring of problematic debt will be classified under negative classification if, after revision of its terms, the debt is not sufficiently protected by the present value and repayment capacity of the debtor, or by any pledged collateral. Debt subject to re-structuring of problematic debt will be classified as Under Special Supervision, if such debt still includes potential weaknesses after re-structuring.

Re-instatement of non-accruing debt to accruing debt status

Typically, non-accruing debt is re-instated to accruing debt status in either of these two cases:

A. It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
B. When the debt has become well-secured and is in collection proceedings.

Moreover, for debt which has undergone formal re-structuring of problematic debt, which was classified as non-accruing debt upon the date of change in terms and conditions, the Bank may reinstate the debt in accruing status, provided that a current, documented credit analysis has been prepared which supports re-instatement of accruing status based on the debtor's financial standing and the repayment likelihood base on the current terms and conditions. Such assessment is based on the debtor's continuous historical repayment performance for payments in cash and cash equivalents over as reasonable period of six months or longer.

Furthermore, with regard to debt which has undergone formal re-structuring of problematic debt, which was classified as accruing debt prior to such re-structuring, the Bank may continue to accrue interest, provided that after such re-structuring the collection of principal and interest in conformity with the revised terms and conditions is reasonably assured, based on a current, well-based credit analysis, provided that the debtor has a history of continuous repayment performance for a reasonable period prior to such changes and that re-structuring has improved the likelihood of the loan being collected in conformity with a reasonable repayment schedule.

As from January 1, 2022, these provisions with regard to treatment of problematic debt under re-structuring apply to residential mortgages.

According to directives included in the Q&A for application of new rules with regard to expected credit losses, the Bank has elected to apply the new rules with regard to identification of re-structuring of problematic debts, and to measure the provision for credit losses using the method required pursuant to these rules for debts under re-structuring of problematic debt, with respect to changes made to residential mortgages prior to January 1, 2022.

For more information about updated standard ASU 2022-02 regarding re-structuring of problematic debts, see below in section F.

Provision for credit losses – measurement

As from January 1, 2022, the Bank applies generally acceptable accounting practices by US banks with regard to measurement of credit losses from financial instruments, as set forth in topic 326 of the codification (ASC 326) "Financial instruments – credit losses".

As part of the application of this standard, the Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed for an appropriate provision to cover expected credit losses with regard to bonds held to maturity and the portfolio of bonds available for sale and certain off-balance sheet credit exposures.

The estimated provision for expected credit losses is calculated over the contractual term of the financial asset, taking into account estimated early repayment.

Note 1 – Reporting Principles and Accounting Policies – continued

In developing the estimated expected credit losses, the Bank accounted for the effects of past events, current terms and conditions and reasonable forecasts which can be founded about collectability of the financial assets.

In general, calculation of the provision for expected credit losses is estimated on group basis when assets have similar risk attributes. These attributes include the following: (1) Credit score or rating, either internal or external; (2) risk rating or risk classification; (3) type of financial asset; (4) type of collateral; (5) size; (6) borrower's operating sector.

For each group of financial assets with similar risk attributes, the Bank calculates the provision for expected credit losses using one of the methods for measurement of such provision as allowed by the standard, which the Bank expects should result in the best estimate of provisions for credit losses.

In order to estimate expected credit losses over the contractual terms of the assets, the Bank relies on historical information, reviewing the need to adjust such historical information to reflect the extent to which current conditions and reasonable forecasts which can be founded differ from those in the period when the historical information was assessed.

When the reasonable period that may be founded, as determined by the Bank, is shorter than the duration of the financial asset, the Bank resumes use of historical information not adjusted for current economic conditions nor for expectations of future economic conditions, such as: change in unemployment rate, asset values, commodity values, arrears and so forth. The return to information about historical losses may be in one of the following methods: (1) Immediate return; (2) return on straight line basis; (3) use of another logical and methodical basis.

Provision for credit losses – consumer loans (non-residential mortgages)

For the consumer loan portfolio, which includes loans to individuals, other than residential mortgages, the Bank measures the provision for expected credit losses using a model which calculates the probability of default (PD) and the loss given default (LGD) ("the PD/LGD Method"), by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the consumer loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – residential mortgages

For the residential mortgage portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, term to maturity, loan age and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the residential mortgages portfolio and because the Bank does not generate forecasts for periods longer than one year, return to historical default rates is gradual over half of the average duration in the residential mortgage portfolio – 4 years.

Provision for credit losses – retail business loans

For the retail business loan portfolio, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth.

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the retail business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – business loans

For the business loan portfolio, the Bank measures the provision for expected credit losses by dividing the loan portfolio into segments with similar risk attributes, such as internal customer rating, type of financial asset, borrower's operating sector, type of collateral and so forth. The provision is determined by a method which calculates the average historical loss rates for each segment (WARM method).

Note 1 – Reporting Principles and Accounting Policies – continued

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. In view of the attributes of the business loan portfolio and the relatively short average duration in this portfolio, return to historical default rates is immediate after one year.

Provision for credit losses – large-scale loans with unique risk attributes

For loans extended for project financing and loans extended for financing of means of control (where loans are in excess of 0.5% of Bank equity), the Bank measures the provision for expected credit losses based on the PD/LGD method, with the calculation based on rating information from global rating agencies (Moody's / S&P).

Macro-economic adjustments for the next 12 months are added to the default rates resulting from the model, in conformity with the directive. Similar to the business credit segment, return to historical default rates is immediate after one year.

Provision for credit losses – loans to governments and banks

For loans to governments and banks, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as internal and external rating, type of financial asset and so forth.

The Bank has also set criteria and factors to be taken into account in order to determine that for some exposures to governments, the expected credit losses are near zero.

Provision for credit losses – off-balance sheet exposures

Off-balance sheet exposures include credit exposures with respect to commitment to extend credit, letters of credit, financial guarantees not treated as insurance and other similar instruments.

The provision for credit losses with respect to off-balance sheet exposures is assessed in conformity with rules set forth in Topic 326 of the codification, based on the provision rates determined for on-balance sheet credit (as described above), taking into account the expected credit realization rate upon default, based on past experience.

The Bank does not calculate an estimated provision for expected credit losses with respect to off-balance sheet commitment to extend credit which may be un-conditionally terminated by the Bank.

Provision for credit losses – securities in portfolio held to maturity

For securities in the portfolio held to maturity, the Bank measures the provision for expected credit losses using the PD/LGD method, by dividing the loan portfolio into segments with similar risk attributes, such as issuer type, duration, interest rate, payment frequency and so forth.

The Bank does not measure expected credit losses with respect to certain government bonds, because the information about historical credit losses, adjusted for current conditions and for reasonable forecasts that may be founded, results in expectation that non-payment of the amortized cost basis is zero.

Provision for credit losses – bonds available for sale

The Bank estimates the expected credit losses with respect to bonds available for sale upon each reporting date, when the fair value is lower than the amortized cost.

Whenever the fair value is lower than the amortized cost, the Bank reviews whether the impairment of fair value is due to credit losses or to other factors. Impairment resulting from credit losses is recognized by way of a provision for credit losses, and impairment not recognized by way of a provision for credit losses is recognized under Other Comprehensive Income, net of tax.

In conformity with provisions of Topic 326 of the codification, the Bank calculates the provision for expected credit losses for securities available for sale individually, using the discounted cash flow method, used by the Bank to compare the present value of expected future cash flows, determined based on past events, current conditions and reasonable forecasts that can be founded (such as: sector, geographic, economic and political factors relevant for collectability of the bond), to the amortized cost basis of the securities.

Note 1 – Reporting Principles and Accounting Policies – continued

Such provision is recognized against an expense with respect to credit loss, to reflect the credit loss component of impairment of the fair value to below the amortized cost. The provision for credit losses with respect to bonds available for sale is capped and may not exceed the difference between the amortized cost and the (lower) fair value, known as "fair value floor".

If the fair value of the securities increases over time, any provision for credit losses which has not been written off is reversed by reducing the expense with respect to credit losses.

Provision for credit losses – net lease investments

For the balance of net lease investments recognized by a lessor in conformity with Topic 842 of the codification regarding leases. The impact of application of this standard is insignificant.

Provision for credit losses – loans evaluated on individual basis

For commercial loans with contractual balance over NIS 1 million, classified as non-accruing, for which specific issues have been identified unlike attributes of other debts, the Bank applies the discounted cash flow method, calculated for each and every debt to determine the provision for credit losses on individual basis.

Reviews of overall appropriateness of the provision

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on Management discretion, taking into account the inherent risk in the loan portfolio and weaknesses and restrictions of assessment methods applied by the Bank to determine the provision.

Accounting write-off

The Bank makes accounting write-offs of any debt, or part thereof, considered to be uncollectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection efforts by the Bank (typically defined as terms in excess of two years).

For debt secured by collateral, the Bank immediately conducts an accounting write-off against the balance of provision for credit losses, for the portion of recorded debt balance in excess of fair value of the collateral.

For commercial loans with respect to debt with contractual balance (without deduction of any write-offs not subject to legal waiver, un-recognized interest, provisions for credit losses and collateral) lower than NIS 1 million, and loans to individuals, other than residential mortgages, the Bank conducts an accounting write-off when such debt is in arrears 150 days or longer. Note, in this regard, that for debt secured by collateral other than a residential apartment, and seizure of the collateral has started and is certain, the Bank only conducts an accounting write-off of the excess recorded debt balance over the collateral value (net of selling costs).

For residential mortgages secured by a residential property, the Bank conducts a current assessment of collateral value, no later than the date when the debt is in arrears 180 days or longer, and conducts an accounting write-off of the excess recorded debt balance over the collateral value (net of selling costs).

Note that accounting write-offs do not involve a legal waiver, and only reduce the reported debt balance for accounting purposes, by creating a new cost basis for the debt on Bank books.

Disclosure requirements

The Bank applies disclosure requirements for creditworthiness of debt and for provision for credit losses, as stipulated in codification section 310-10 "Debts" and in conformity with disclosure requirements in codification section 326-20 "Financial instruments – credit losses – instruments measured at amortized cost", on consolidated basis.

See also Note 13 regarding "Credit risk, loans to the public and provision for credit losses" and Note 30 regarding "Additional information about credit risk, loans to the public and provision for credit losses".

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank has adapted these disclosures to the new disclosure format and to disclosure with regard to non-accruing debts, in lieu of impaired debts, with re-classification of comparison figures, to adapt them to the new disclosure format, except for disclosure requirements with respect to credit quality by year when credit was extended, which does not require comparison figures for periods prior to initial application.

8) Transfer and service of financial assets and discharge of liabilities

The Bank applies the measurement and disclosure rules stated in sub-topic 860-10 of the codification, with regard to transfer and service of financial assets, for handling the transfer of financial assets and discharging of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements, or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, *inter alia*, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or determinable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of presentations or obligations, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and has been released from its commitment for said liability; or (b) the Bank was legally released in a judicial process or by consent of the lender, being the major debtor for said liability.

For details of syndication transactions, see Note 30 to the financial statements.

Transactions for loaning securities managed as credit transactions

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Handling un-secured loaning of securities from the available-for-sale portfolio or from the trading portfolio.

When the Bank loans securities to cover short selling by the borrower, the Bank de-recognizes the loaned securities and recognizes credit equal to the market value of these securities on the loaning date. In subsequent periods, the Bank measures the credit extended in the same way it measured the securities prior to loaning.

Note 1 – Reporting Principles and Accounting Policies – continued

Credit is measured at market value, revenues on the accrual basis are recognized as interest income from credit and changes to market value (in excess of changes on the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of bonds available for sale. Upon concluding the loaning, the Bank recognizes once again the securities and de-recognizes the credit.

9) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition and Measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.

When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.

The cost of purchased software, which is an integral part of operation of related equipment, is recognized as part of the cost of such equipment. Furthermore, in conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use. For more information about the accounting treatment of the cost of software for in-house use, see below.

Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its book value and are recognized, net, under "Other revenues" in the statement of profit and loss.

Transactions whereby the Bank sells a property and leases it back under an operating lease are treated as accounting sale transactions, and the full profit with respect there to is recognized, subject to fulfillment of conditions for recognizing the sale.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the length of useful life, whichever is shorter. Owned land is not depreciated.

An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.

In view of the merger process of Union Bank with the Bank, we reviewed the estimates with regard to useful life of fixed asset items at Union Bank, and adjustments were made to these estimates accordingly.

For more information about estimated useful life of buildings and equipment, as of December 31, 2023, see Note 16 to the financial statements.

Impairment

The Bank reviews non-current assets (or asset groups) for impairment when events or changes in circumstances occur, indicating that the depreciated cost may not be recoverable.

For the purpose of impairment evaluation and measurement, the Bank groups an asset (or asset group) together with other assets and liabilities at the lowest level that generates cash flows, which is independent of cash flows for other groups of assets and liabilities. Impairment loss recognized is only charged to an asset (or asset group) within the scope of Section 360 of the Codification.

Note 1 – Reporting Principles and Accounting Policies – continued

Impairment loss is only recognized if the carrying amounts of a non-current asset (asset group) is not recoverable and exceeds its fair value. The book value is not recoverable if it exceeds total non-capitalized cash flows expected from use of the non-current asset (asset group) and its realization.
Impairment loss is equal to the difference between the book value of the non-current asset (asset group) and its fair value, and is charged to the statement of profit and loss.
When impairment loss is recognized, the adjusted book value of the non-current asset (asset group) becomes the new cost basis. These losses are not canceled in subsequent periods, even in case of appreciation.

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others. The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for capitalization of each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

In conformity with Public Reporting Directives, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.
Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss.
Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct costs of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.
In subsequent periods, capitalized development costs are measured at cost net of accumulated amortization and impairment loss.

Subsequent costs

Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional functionality. Other subsequent costs are recognized as an expense when incurred.

Amortization

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. A depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.
Intangible assets generated from a software project are amortized to the statement of profit and loss using the straight line method over the useful life of the software but not to exceed 5 years, as from the date on which the software is ready for its designated use. In this regard, the software is ready for its designated use when all material testing has been completed.

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that it is possible that the book value of the asset may not be recovered.
Events or changes in circumstances which may indicate impairment are:
- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made in the future;
- The costs of development or adaptation of software designated for in-house use significantly exceed the amount anticipated in advance.

Note 1 – Reporting Principles and Accounting Policies – continued

When it is no longer expected that software development would be completed, the Bank adjusts the book value of the software to be the lower of its book value and fair value net of selling costs.

10) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".

Intangible assets of un-specified useful life are amortized to the statement of profit and loss using the straight line method over the useful life of the intangible assets, as from the date on which these assets are available for use.

Intangible assets with unspecified useful life are evaluated if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is an evaluation of whether the book value of the asset group is higher than the non-discounted cash flow amount expected to result from it. If so, impairment is to be recognized equal to the difference between the book value and the fair value of the asset group. Impairment is to be proportionately attributed solely to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.

Assets of unspecified useful life are reviewed for impairment at least once per year. They should be evaluated as to whether the book value of the asset exceeds its fair value. If so, impairment is to be recognized, to the extent to the difference between the book value and the fair value.

Goodwill is not systematically amortized.

Development costs of acquired software or costs capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

11) Leases

Contracts that confer on the Bank control over use of an asset in conjunction with a lease for a certain duration in exchange for consideration, are accounted for as leases. Upon initial recognition, a liability is recognized equal to the present value of future rent payments during the lease term (these payments exclude variable lease payments) and concurrently, a right-to-use asset is recognized equal to the amount of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs incurred with respect to the lease.

The lease term is the period for which the lease may not be terminated, along with periods subject to an option to extend or terminate the lease, if it is reasonably certain that the lessee would or would not exercise such option, respectively, and along with periods subject to an option to extend or terminate the lease where the lessor has control over the right to exercise such option.

The Bank has elected to apply the practical relief whereby short-term leases, for terms of up to one year, are accounted for by recognizing the lease fees to profit and loss using the straight line method over the lease term, without recognizing a right-to-use asset and/or liability with respect to the lease on the statement of financial position.

Subsequent measurement

After initial recognition, liabilities with respect to leases (whether an operational lease or a financial lease) are measured at amortized cost using the effective interest method. Moreover, the Bank reviews a right-to-use asset (with respect to operational or financial lease) for impairment in conformity with provisions of sub-topic 360-10-35 of the codification with regard to impairment with respect to fixed assets.

Lease payments

Operational lease

Lease payments, other than variable leasing fees, are charged to profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term. Variable lease payments which depend on an index or on interest are recognized on the statement of profit and loss in the period when varied. Variable lease payments which do not depend on an index or on interest are recognized on the statement of profit and loss in the period when it is expected that the specific objective resulting in variance of the lease payments would be achieved, and are reversed in the period when that specific objective is no longer expected to be achieved.

Note 1 – Reporting Principles and Accounting Policies – continued

Upon each subsequent reporting date, a right-to-use asset is recognized equal to the depreciated cost of the liability with respect to the lease, adjusted for lease payments made in advance or accrued and net of lease incentives, plus direct costs yet to be amortized and net of impairment loss accumulated with respect to the right-to-use asset.

Financing lease

After the lease start date, the right-to-use asset is measured at cost net of accumulated depreciation and net of any accumulated impairment loss, and is adjusted for re-measurement of the lease liability. Depreciation is calculated using the straight line method over the useful life or over the contractual lease term.

12) Contingent liabilities

The financial statements include appropriate provisions with respect to claims to cover possible damages, where, in the opinion of the Bank's Management, based on the opinion of its legal counsel, a provision is required.

In accordance with the guidelines of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

A. Probable risk: there is a probability of more than 70% of a loss from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
C. Remote risk: there is a probability of less than 20% of a loss from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 26.C.11 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of shareholders' equity attributable to shareholders of the Bank.

Likewise, Note 26.C.12 provides disclosure of motions for recognition as class actions, when the amount claimed in them is material which, in the opinion of the Bank's Management, based, according to the case, on the opinion legal counsel, the subsidiaries' managements and on the opinion of their legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

13) Employees' rights

The Bank applies the Supervisor of Bank's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives"):

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

Note 1 – Reporting Principles and Accounting Policies – continued

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employees' benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that cases where the Bank expects payment of benefits beyond contractual terms, would match these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government bonds in Israel plus the average spread for corporate bonds rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government bonds, all as of the reporting date.

Below are details of benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

The Bank regularly examines the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' guidelines with regard to internal controls over the financial reporting process with regard to employees' rights, including with regard to review of a "commitment in substance" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without use of discount rates and actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employees' benefits, see Note 22 to the financial statements.

Accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income:

Actuarial gains / losses are amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

14) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options granted to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the granted options. Expenses are recognized based on fair value of the options on the grant date, concurrently with an increase in capital over the term of service for which the options are granted.

Note 1 – Reporting Principles and Accounting Policies – continued

When determining the fair value of options upon the grant date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit grant) have no impact on determining fair value upon the grant date and are reflected in current expensing of the benefit granted. As allowed by the standard, the Bank treats each granted lot as a separate grant.

As for a grant in the ordinary income track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense amount in the accounts, multiplied by the tax rate. Upon exercise of the options, when the allowed expense for income tax exceeds the expense recognized in the accounts, the difference, multiplied by the tax rate, would be recorded to profit and loss. As for the capital track, the Taxes Authority does not recognize expenses upon option exercise.

15) Guarantees

Guarantees are contracts which require the guarantor, on contingent basis, to make payments to the guaranteed party upon occurrence of conditions requiring the guarantee to be exercised. The guarantee obligation is measured upon initial recognition at the higher of the fair value or the amount of expected loss provisions with respect to them. The obligation is de-recognized when the Bank no longer bears the risk.

16) Derivative instruments and hedging activities

A. The Bank performs transactions in derivative instruments, including currency and interest contracts and credit derivative contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank’s day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risks, including basis and interest risks – risks to which the Bank is exposed in its everyday activities.

B. Derivative instruments are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivative instruments, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative instrument, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. Changes in fair value of detached embedded derivatives are immediately charged to profit and Loss.

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. These policies was adopted for structured securities in the available-for-sale portfolio.

Hedge accounting

The Bank is exposed to market risks due to its business operations. As part of the Bank's overall strategy for management of exposure to such risks, the Bank designates certain financial instruments as fair value hedges and as cash flow hedges.

Upon the hedge relationship start date, the Bank formally documents the hedge relationship and the objective of its risks management and strategy for executing this hedge. Documentation includes identification of each of the following: Hedging instrument; hedged item or transaction; nature of hedged risk; method to be applied by the Bank to assess the effectiveness of hedge relationship, offsetting exposure to changes in fair value of the hedged item (for fair value hedge), or offsetting exposure to changes in cash flows with respect to the hedged transaction (for cash flow hedge), attributable to the hedged risk.

Note 1 – Reporting Principles and Accounting Policies – continued

Fair value hedge

The Bank designates derivative instruments as hedges for exposure to changes in fair value of an asset or liability, or an identified part of them, which is attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for fair value hedge, the changes to fair value included in assessment of the hedge effectiveness are currently recognized in the statement of profit and loss, presented under the same item as effects of the hedged item. Gain or loss (i.e. change in fair value) with respect to the hedged item attributable to the hedged risk is accounted for as adjustment to the book value of the hedged item and is currently recognized in the statement of profit and loss. The adjustment to book value amount of the hedged item shall be accounted for similarly to other components of the its book value.

The preliminary value of components excluded from assessment of hedge effectiveness is recognized in the statement of profit and loss, methodically and rationally over the term of the hedging instrument, with the difference between changes to fair value of components excluded from assessment of hedge effectiveness and amounts methodically and rationally recognized in the statement of profit and loss, recognized under Other Comprehensive Income.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Amounts in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss in the period when the hedged item was de-recognized from the accounts. For all other discontinued fair value hedges, Amounts in Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized in the statement of profit and loss similarly to other components included in the book value of the hedged asset or liability.

Cash flows hedges

The Bank designates derivative instruments as hedges for exposure to changes in expected future cash flows attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for a cash flow hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized in Other Comprehensive Income. These amounts are reclassified to the statement of profit and loss in the period(s) in which the hedged anticipated transaction impacts earnings, and are presented under the same item as effects of the hedged item.

The Bank has elected to regularly recognize changes to fair value of components excluded from assessment of hedge effectiveness in profit and loss, under the same item as effects of the hedged item.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Net gain or loss with respect to the hedging instrument, related to a discontinued cash flow hedge, continue to be reported under cumulative Other Comprehensive Income (AOCI), unless it is probable that the anticipated transaction would not take place by the end of the original term determined (as documented at the start of the hedging relationship), or within two months thereafter.

If the anticipated hedged transaction is not expected to take place, whether by the end of the original term determined or within two months thereafter, net gain or loss with respect to the hedging instrument reported in cumulative Other Comprehensive Income is immediately reclassified to the statement of profit and loss.

Economic hedge

Hedge accounting is not applied for derivative instruments used as part of the Bank's asset and liability management (ALM). Changes to fair value of such derivatives are recognized in profit and loss when created.

17) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of an asset, or the price which would have been paid upon transfer of a liability, in a regular transaction between market participants on the measurement date. The standard requires, *inter alia*, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available in the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank.

Note 1 – Reporting Principles and Accounting Policies – continued

Sub-topic 820-10 of the codification lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data in active markets, or in non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivative instruments that it issued and are measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk for derivative instruments as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative instrument at a high legal level of certainty, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions in an active market of the credit quality of the counter party, if such indications are available with reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to guidelines stated in the standard, the Bank is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable bonds of the counter-party) – shall be classified as a Level 3 fair value measurement.

How fair value is determined:

1) Securities

Fair value of securities held for trading, bonds available for sale and shares not held for trading is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units at the aforementioned quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's position relative to the trading volume (holding size factor).
If such quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.), except for shares not held for trading for which no fair value is available, which are measured as stated in section 6.A.4. above.

Note 1 – Reporting Principles and Accounting Policies – continued

2) Financial derivatives

Financial derivative instruments with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial instruments not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the financial instrument. To this end, the future cash flows for non-accruing and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

B. Fair value option

Sub-topic 825-10 of the codification allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gains and losses due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, the standard stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

18) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are recorded to the statement of profit and loss, or recorded directly to equity if they arise from items directly recognized in equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Law. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

A. Current taxes

Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B Deferred taxes

Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.

The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accumulated since January 1, 2017.

The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.

Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

Note 1 – Reporting Principles and Accounting Policies – continued

C. Offset of deferred tax assets and liabilities
The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions
The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the tax authorities or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

19) Earnings per share
The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares. Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options granted to employees.

20) The Bank's operating segments

A. Supervisory operating segments
A supervisory operating segment is a Bank component engaged in certain activities or grouping customers in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Directives by the Supervisor of Banks.
A supervisory operating segment is mostly specified in terms of customer classification. Individual customers are classified based on financial assets for the household and private banking segments. Customers other than individuals are primarily classified based on their turnover for business segments (separated into small and micro business, medium business and large business), institutional entities and the financial management segment.
Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on the management approach, when such operating segments materially differ from the supervisory operating segments.
On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to customer categorization by operating segments based on their volume of revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize customers into operating segments based on other parameters, in line with total customer indebtedness. Thus, in some cases listed in the Q&A file, customers may be categorized based on the number of employees or total assets on their balance sheet. If this information is also not available, the customer may be categorized, in such cases, based on its total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – the management approach
In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with the management approach" should be provided in conformity with generally acceptable accounting practices by banks in the United States with regard to operating segments (included in ASC 280), if there is a material difference between the management approach and supervisory reportable segments.
An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:
- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In flaw, there is a correlation between the supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in customer attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Note 1 – Reporting Principles and Accounting Policies – continued

For more information about criteria for customer classification into supervisory segments and into segments in conformity with the management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

21) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the manner of treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning the accounting treatment of transactions between an entity and its controlling shareholder.
Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Amendment	Publication requirements	Start date and transition provisions	Implications
Update to standard ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended	On March 31, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02 regarding re-structuring of problematic debts and disclosure requirements by year when credit was extended with regard to provisions for credit losses (hereinafter: "the Update"). On October 19, 2023, the Supervisor of Banks issued a circular regarding "Revision of debt terms for borrowers in financial difficulties", revising the public reporting regulations in conformity with revision of accounting standards on this matter. This update includes, *inter alia*, elimination of the definition "debt subject to re-structuring of problematic debt", to be superseded by the term "Revision of debt terms for borrowers in financial difficulties"; elimination of the requirement to review whether the Bank granted a waiver to the customer as part of the arrangement; revision of disclosure requirements on the financial statements, so as to provide disclosure of any change in debt terms for borrowers in financial difficulties, which includes waiver of principal, reduction of interest rate or extension of the term which does not result in negligible deferment of payments; elimination of the requirement to calculate a provision for credit losses for debt subject to re-structuring of problematic debt, using the discounted cash flow method; and extended disclosure of "Credit quality by origination year" to include information about gross accounting write-offs during the year.	The standard applies as from January 1, 2024, and would affect the financial statements for the first quarter of 2024 and thereafter. Upon initial application, the transition provisions stipulated in generally acceptable accounting practices by US banks would apply, *mutatis mutandis*, and in particular: Financial statements for 2024 and thereafter would not require comparison figures with respect to re-structuring of problematic debt, other than disclosure previously stipulated in public reporting regulations. The debt balance of borrowers in financial difficulties subject to revision of terms through December 31, 2023 may be determined based on the balance of debt subject to re-structuring of problematic debt through December 31, 2023, subject to disclosure of this matter. Most of the requirements for expanded quantitative disclosure on financial statements would only apply as from the financial statements for the second quarter of 2024.	The Bank will apply the new directives with regard to revision of debt terms for borrowers in financial difficulties as from January 1, 2024. Note that the major change due to revision of the standards is the elimination of automatic classification as non-accruing debt of debt subject to re-structuring that includes a waiver. However, the requirement to review the debt and to classify it as non-accruing remains in place if the state of the borrower and their repayment capacity require this, and since this is anyway debt of borrowers in financial difficulties, the number of cases where classification due to revision of the standards would become redundant – is non-material. The financial statements for 2023 include disclosure with regard to the expected change. No material impact is expected on the financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

F. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Amendment	Publication requirements	Start date and transition provisions	Implications
Update to standard ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction	On June 29, 2022, the US Financial Accounting Standards Board ("FASB") issued ASU 2022-03 regarding fair value measurement of equity securities subject to trade restriction (hereinafter: "the Update"). The Update clarifies that contractual trade restriction on equity securities is an entity-specific restriction, and is not part of the accounting measurement unit of such securities, and therefore shall not be accounted for in fair value measurement. Furthermore, the Update adds disclosure requirements.	In conformity with directives of the Supervisor of Banks	No material impact is expected on the financial statements.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency "	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale bonds as part of fair value adjustment of such bonds, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2023.	January 1, 2024	No material impact is expected on the financial statements.
Updated standard ASU 2023-07 regarding improvement to disclosure requirements concerning reportable segments	On November 27, 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07 regarding improvement to disclosure requirements concerning reportable segments (hereinafter: "the Update"). This update improves the disclosure requirements applicable to entities, including added requirement of disclosure, to be provided in the segment note, regarding "significant expenses" reported to the CODM, provision of an explanation as to how the CODM uses the segment reporting, expansion of certain annual disclosure requirements to include interim periods, disclosure of the identity and role of the CODM and clarification whereby Topic 280 also applies to entities with a single segment.	In conformity with directives of the Supervisor of Banks	No material impact is expected on the financial statements.
Updated standard ASU 2023-09 regarding improvement to disclosure requirements concerning taxes on income	On December 14, 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09 regarding improvement to disclosure requirements concerning taxes on income (hereinafter: "the Update". The revisions included in this update add new improved disclosure requirements and eliminate certain disclosure requirements.	In conformity with directives of the Supervisor of Banks	No material impact is expected on the financial statements.

Note 2 – Interest revenues and expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
a. Interest revenues[1]			
From loans to the public	20,106	14,794	10,242
From loans to Governments	24	11	11
From deposits with the Bank of Israel and from cash	3,304	1,014	79
From deposits with banks	113	38	7
From securities loaned or purchased in resale agreements	4	10	[2] -
From bonds	454	328	218
Total interest revenues	**24,005**	**16,195**	**10,557**
B. Interest expenses			
On deposits from the public	10,633	4,168	1,716
On deposits from governments	2	3	4
On deposits from banks	95	9	4
On bonds and subordinated notes	1,282	1,744	1,142
On other liabilities	18	31	6
Total interest expenses	**12,030**	**5,955**	**2,872**
Total interest revenues, net	**11,975**	**10,240**	**7,685**
C. Details of net effect of hedging derivative instruments on interest revenues and expenses	(22)	18	83
d. Details of interest revenues on accrual basis from bonds			
Held to maturity	111	57	41
Available for sale	339	253	167
For trading[3]	4	18	10
Total included under interest revenues	**454**	**328**	**218**

(1) Includes the effective element in the hedging ratios.

(2) Balance lower than NIS 0.5 million.

(3) Net interest revenues from trading operations for 2023, as presented in Note 29, amounting to NIS 19 million (in 2022 and 2021 net interest revenues (expenses) amounting to NIS 20 million), include interest revenues from bonds held for trading, amounting to NIS 4 million (in 2022 and 2021: NIS 12 million and NIS 10 million, respectively), as stated above, linkage differentials amounting to NIS 0 million (in 2022 and 2021: NIS 13 million and NIS 4 milion, respectively) as well as inter-segment revenues (expenses) amounting to NIS 15 million (in 2022 and 2021: NIS (5) million and NIS 6 million, respectively) with respect to internal transactions between the Assets and Liability Management segment and the trading segment.

Note 3 – Non-interest financing revenues

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
a. Non-interest financing revenues (expenses) with respect to non-trading operations			
1. From activity in derivative instruments			
Net revenues (expenses) with respect to ALM derivative instruments[(1)]	1,618	3,450	(890)
Total from activity in derivative instruments	**1,618**	**3,450**	**(890)**
2. From investment in bonds			
Gain (loss) from sale of bonds available for sale	(118)	(55)	60
Provision for impairment with respect to bonds available for sale	(9)	(5)	-
Total from investment in bonds	**(127)**	**(60)**	**60**
3. Exchange rate differences, net	**(964)**	**(3,063)**	**1,124**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	13	41	51
Provision for impairment of shares not held for trading	(6)	(45)	(9)
Dividends from shares not held for trading	14	36	20
Unrealized gains (losses)[(3)]	7	(81)	77
Total from investment in shares	**28**	**(49)**	**139**
5. Net gains with respect to loans sold	**-**	**8**	**-**
Total non-interest financing revenues with respect to non-trading purposes	**555**	**286**	**433**
b. Non-interest financing revenues (expenses) with respect to trading operations[(2)]			
Net revenues (expenses) with respect to other derivative instruments	(35)	365	(6)
Realized and un-realized gains (losses) from adjustment to fair value of bonds held for trading, net	(11)	98	(26)
Realized and un-realized gains (losses) from adjustment to fair value of shares held for trading, net	2	5	-
Total from trading operations[(4)(5)]	**(44)**	**468**	**(32)**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	(4)	103	23
Foreign currency exposure	(40)	365	(55)
Exposure to shares	-	-	-
Exposure to commodities and others	-	-	-
Total	**(44)**	**468**	**(32)**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(2) Includes exchange rate differentials resulting from trading operations.
(3) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(4) For interest revenues from investments in bonds held for trading, see Note 2.D.
(5) Financing revenues other than interest from trading operations for 2023, as presented in Note 29, amounting to NIS 202 million (in 2022 and 2021: NIS 345 million and NIS 90 million, respectively), include total revenues (expenses) from trading operations, as stated above, amounting to NIS 109 million (in 2022 and 2023: NIS 468 million and NIS (33) million, respectively), as well as exchange rate differentials (difference between exchange rate differentials with respect to ALM derivative operations and exchange rate differentials for balance sheet operations) amounting to NIS 93 million (in 2022 and 2021: NIS (123) million and NIS 123 million, respectively). as stated above.

Note 4 – Commissions

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Account management(1)	431	440	412
Conversion differences	349	336	306
Activities involving securities	241	258	314
Credit cards	264	260	236
Commissions on distribution of financial products(2)	70	78	76
Handling credit	68	75	68
Foreign trade activity	49	55	53
Life insurance distribution commissions	90	112	109
Home insurance distribution commissions	16	15	13
Net revenues from credit portfolio service	28	27	31
Provident fund operations	27	24	27
Other commissions	68	61	44
Total commissions other than from financing business	**1,701**	**1,741**	**1,689**
Commissions from financing transactions	327	311	258
Total commissions	**2,028**	**2,052**	**1,947**

(1) In Israeli and foreign currency.
(2) Includes distribution commissions from mutual funds and pension products.

Note 4A – Revenue from contracts with customers(1)

For the year ended December 31

Reported amounts (NIS in millions)

								2023
	Households – other	**Households – mortgages**	**Private banking**	**Small businesses**	**Commercial banking**	**Business banking**	**Financial management**	**Total**
Account management(2)	173	-	1	206	19	32	-	431
Conversion differences	94	-	3	82	9	14	147	349
Activities involving securities	137	-	8	21	5	39	31	241
Credit cards	197	-	1	59	4	3	-	264
Commissions on distribution of financial products(3)	63	-	2	4	-	1	-	70
Handling credit	5	6	-	42	4	11	-	68
Foreign trade activity	-	-	-	21	8	20	-	49
Life insurance distribution commissions	-	90	-	-	-	-	-	90
Home insurance distribution commissions	-	16	-	-	-	-	-	16
Net revenues from credit portfolio service	7	12	-	-	-	9	-	28
Provident fund operations	-	-	-	-	-	-	27	27
Other commissions	21	-	-	7	-	17	23	68
Total commissions other than from financing business	**697**	**124**	**15**	**442**	**49**	**146**	**228**	**1,701**
Commissions from financing transactions	7	2	-	47	31	240	-	327
Total commissions	**704**	**126**	**15**	**489**	**80**	**386**	**228**	**2,028**

(1) Classification of revenues to operating segments is based on the management approach.
(2) In Israeli and foreign currency.
(3) Includes distribution commissions from mutual funds and pension products.

Note 4A – Revenue from contracts with customers(1) – continued

For the year ended December 31

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total
								2022
Account management(2)	182	-	2	205	21	30	-	440
Conversion differences	91	-	2	82	8	14	139	336
Activities involving securities	146	-	7	29	5	42	29	258
Credit cards	200	-	1	52	4	3	-	260
Commissions on distribution of financial products(3)	67	-	2	4	5	-	-	78
Handling credit	18	7	-	35	4	11	-	75
Foreign trade activity	-	-	-	22	9	24	-	55
Life insurance distribution commissions	-	112	-	-	-	-	-	112
Home insurance distribution commissions	-	15	-	-	-	-	-	15
Net revenues from credit portfolio service	7	13	-	-	-	7	-	27
Provident fund operations	-	-	-	-	-	-	24	24
Other commissions	14	-	1	7	-	16	23	61
Total commissions other than from financing business	**725**	**147**	**15**	**436**	**56**	**147**	**215**	**1,741**
Commissions from financing transactions	21	3	1	42	30	214	-	311
Total commissions	**746**	**150**	**16**	**478**	**86**	**361**	**215**	**2,052**

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total
								2021
Account management(2)	163	-	1	192	20	30	6	412
Conversion differences	82	-	4	77	9	12	122	306
Activities involving securities	194	-	13	31	9	38	29	314
Credit cards	176	-	1	52	4	3	-	236
Commissions on distribution of financial products(3)	65	-	3	6	1	-	1	76
Handling credit	16	4	-	25	5	16	2	68
Foreign trade activity	-	-	-	23	11	19	-	53
Life insurance distribution commissions	-	109	-	-	-	-	-	109
Home insurance distribution commissions	-	13	-	-	-	-	-	13
Net revenues from credit portfolio service	5	17	-	-	-	7	2	31
Provident fund operations	-	-	-	-	-	2	25	27
Other commissions	9	-	1	1	2	14	17	44
Total commissions other than from financing business	**710**	**143**	**23**	**407**	**61**	**141**	**204**	**1,689**
Commissions from financing transactions	9	4	-	45	25	175	-	258
Total commissions	**719**	**147**	**23**	**452**	**86**	**316**	**204**	**1,947**

(1) Classification of revenues to operating segments is based on the management approach.
(2) In Israeli and foreign currency.
(3) Includes distribution commissions from mutual funds and pension products.

Note 5 – Other revenues

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Capital gain from sale of buildings and equipment	-	(1)371	18
Trustee fees	17	18	18
Revenues from security services	24	19	14
Rent revenues	6	6	5
Amortization of intangible assets, net	206	206	206
Other	13	2	26
Total other revenues	**266**	**622**	**287**

(1) Includes capital gain amounting to NIS 241 million with respect to sale of 100% interest in 24 rental properties around Israel, zoned for different uses, office and commercial use, and capital gain amounting to NIS 130 million with respect to sale of investment in Hof HaTchelet Development Company.

Note 6 – Salaries and Related Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Salaries (including bonuses)	2,574	3,052	2,549
Expense due to transactions accounted for as share-based payment transactions settled using equity instruments(1)	57	45	41
Other associated expenses, including study fund and paid leave	115	109	105
Long-term benefits	26	4	21
National Insurance and VAT on salaries	502	511	507
Expenses with respect to pension (including severance pay and provident funds)			
Defined benefit – cost of service(2)	48	76	78
Defined contribution	192	190	193
Other post-employment benefits and post-retirement benefits, other than pension payment(2)	9	10	11
Expenses with respect to other employees' benefits	21	32	31
Total salaries and related expenses	**3,544**	**4,029**	**3,536**
Of which: Payroll and associated expenses overseas	**71**	**53**	**46**

(1) See Note 23 "Share-based Payment Transactions".
(2) See Note 22 "Employees' Rights".

Note 7 – Other Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	2023	2022	2021
Expenses with respect to pension (including severance pay and provident funds), defined benefit (excluding cost of service)	83	113	105
Marketing and advertising	118	96	87
Communications	50	53	51
Computer	165	329	318
Office expenses	45	47	43
Insurance	25	57	36
Professional services	153	182	133
Board members' fees	9	15	13
Training and continuing education	16	15	8
Commissions	42	53	52
Cars and travel	40	35	31
Other	181	137	153
Total other expenses	**927**	**1,132**	**1,030**

Note 8 – Provision for Taxes on Profit

For the year ended December 31

Reported amounts (NIS in millions)

A. Composition

	2023	2022	2021
Current taxes –			
For the current year	2,945	2,754	1,650
For prior years	9	10	2
Total current taxes	**2,954**	**2,764**	**1,652**
Changes in deferred taxes –			
For the current year	(285)	(406)	78
For prior years	-	(2)	-
Total deferred taxes	**(285)**	**(408)**	**78**
Total provision for taxes on income	**2,669**	**2,356**	**1,730**
Includes provision for income tax overseas	**109**	**123**	**47**

B. The table excludes the tax effect with respect to certain items recognized directly in equity in each period. The tax effect of all items recognized directly in equity amounted to increase by NIS 4 million in 2023, compared to decrease by NIS 183 million in 2022 and increase by NIS 16 million in 2021.

C. Below is a reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2023	2022	2021
Pre-tax profit	**7,748**	**6,963**	**5,030**
Statutory tax rate applicable to a bank in Israel	**34.19%**	**34.19%**	**34.19%**
Tax amount based on statutory tax rate	2,649	2,381	1,720
Tax (tax saving) from:			
Income of subsidiaries in Israel(1)	-	(21)	(3)
Income of subsidiaries overseas	-	1	2
Exempt and reduced tax rate income	(2)	(5)	(1)
Adjustment differences on depreciation, amortization and capital gains	(1)	(1)	2
Other non-deductible expenses	103	70	73
Temporary differences and gain for which no deferred taxes have been recorded	4	5	12
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	5	4	4
Others	(8)	3	2
Amortization of deferred credit balance(2)	(81)	(81)	(81)
Total provision for taxes on income	**2,669**	**2,356**	**1,730**

(1) Includes revenues of auxiliary corporations.
(2) Revenue recognition with respect to deferred credit balance from acquisition of Union Bank, as from September 30, 2020.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (in millions)

D. Deferred tax assets and provision for deferred taxes

	Balances as of December 31					
	2022	Changes charged to profit and loss	Changes charged to Other Compre-hensive Income	Changes charged to equity	2023	Average tax rate in %
Deferred tax assets[(1)]:						
Provision for credit losses	999	389	-	-	1,388	34.19
Provision for vacation pay, long-service bonuses and employees' rights	439	(69)	-	-	370	33.71
Excess liabilities with respect to employees' benefits over plan assets	613	16	6	-	635	34.14
Securities[(3)]	17	(4)	-	-	13	34.19
Carry-forward tax loss[(2)]	-	-	-	-	-	-
Other – from non-monetary items	30	(22)	-	-	8	34.19
Deferred tax balance, gross	**2,098**	**310**	**6**	**-**	**2,414**	**34.19**
Provision for tax asset	**-**	**-**	**-**	**-**	**-**	**-**
Tax asset balance net of provision for deferred taxes	**2,098**	**310**	**6**	**-**	**2,414**	**-**
Deferred tax liabilities with respect to[(1)]:						
Fixed assets and leases	28	(1)	-	-	27	23.00
Investments in investee companies	165	27	-	-	192	11.98
Other – from monetary items[(4)]	-	2	2	-	4	-
Other – from non-monetary items, net	-	-	-	-	-	-
Tax reserve with respect to PPA adjustments	14	(3)	-	-	11	34.19
Deferred tax liability balance, gross	**207**	**25**	**2**	**-**	**234**	**13.25**
Deferred tax balance, net	**1,891**	**285**	**4**	**-**	**2,180**	

(1) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Carry-forward tax loss with respect to subsidiaries in Israel.

(3) Deferred tax asset with respect to investment in shares, amounting to NIS 13 million (in the previous year: deferred tax asset amounting to NIS 17 million). Changes in this item with respect to gain amounting to NIS 4 million due to adjustment of fair value of securities available for sale were charged to a separate item under shareholder's equity (in the previous year: loss amounting to NIS 25 million).

(4) Changes in this item amounting to NIS 2 million due to net gain from cash flow hedges were charged to a separate item under shareholder's equity (in the previous year: gain amounting to NIS 6 million).

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes – Continued

	Balances as of December 31					
	2021	Changes charged to profit and loss	Changes charged to Other Compre-hensive Income	Changes charged to equity	2022	Average tax rate in %
Deferred tax assets[2]:						
Provision for credit losses	724	84	-	191	999	34.19
Provision for vacation pay, long-service bonuses and employees' rights	217	222	-	-	439	33.50
Excess liabilities with respect to employees' benefits over plan assets	723	67	(177)	-	613	34.14
Securities[4]	(8)	25	-	-	17	34.19
Carry-forward tax loss[3]	6	(6)	-	-	-	-
Other – from non-monetary items	8	22	-	-	30	34.19
Deferred tax balance, gross	**1,670**	**414**	**(177)**	**191**	**2,098**	**34.03**
Provision for tax asset	-	-	-	-	-	-
Tax asset balance net of provision for deferred taxes	**1,670**	**414**	**(177)**	**191**	**2,098**	**34.03**
Deferred tax liabilities with respect to[2]:						
Fixed assets and leases	27	1	-	-	28	23.00
Investments in investee companies	100	65	-	-	165	11.98
Other – from monetary items[5]	(6)	-	6	-	-	-
Other – from non-monetary items, net	7	(7)	-	-	-	-
Tax reserve with respect to PPA adjustments	67	(53)	-	-	14	34.19
Deferred tax liability balance, gross	**195**	**6**	**6**	**-**	**207**	**13.25**
Deferred tax balance, net	**1,475**	**408**	**(183)**	**191**	**1,891**	

(1) The Bank assumes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Carry-forward tax loss with respect to subsidiaries in Israel.

(3) Deferred tax asset with respect to investment in shares, amounting to NIS 17 million (in the previous year: deferred tax liability amounting to NIS 8 million). Changes in this item with respect to loss amounting to NIS 25 million due to adjustment of fair value of securities available for sale were charged to a separate item under shareholder's equity (in the previous year: loss amounting to NIS 25 million).

(4) Changes in this item amounting to NIS 6 million due to net gain from cash flow hedges were charged to a separate item under shareholder's equity (in the previous year: gain amounting to NIS 11 million).

E. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017. Total liability as of December 31, 2023: NIS 192 million (as of December 31, 2022: NIS 165 million).

F. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

Note 8 – Provision for Taxes on Profit – continued

For the year ended December 31

Reported amounts (NIS in millions)

G. Legislation changes with regard to tax

1. Corporate tax

On December 22, 2016 the Knesset plenum approved the Economic Streamlining Law (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

Deferred tax balances were calculated based on new tax rates stipulated in the Economic Streamlining Law (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years) using the tax rate expected to apply upon the reversal date.

2. VAT, profit tax and payroll tax

On October 12, 2015, the Knesset plenum enacted the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), -2015. Stipulating that profit tax and payroll tax rates applicable to financial Institutions would decrease from 18% to 17% as from October 1, 2015. The aforementioned change resulted in the statutory tax rate applicable to financial institutions decreasing to 35.02% in 2017 and to 34.19% as from 2018.

Following these changes, the statutory tax rates applicable to banking corporations were revised as follows:

Tax year	Profit tax rate	Income tax rate	Total tax rate
2018 and later	17%	23%	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank supplements the tax indebtedness based on the tax rate in Israel.

H. The Bank has finalized tax assessments through 2020.
The Bank received agreed withholding deduction tax assessments through the 2020 tax year.
Bank Yahav has finalized tax assessments through 2019.
Union Bank has finalized tax assessments through 2020.

I. Further to closing the acquisition of 100% of the issued and paid-up share capital and voting rights in Union Bank on September 30, 2020, and further to the Bank and Union Bank signing an agreement on November 29, 2020 regarding the merger of Union Bank with and into the Bank, on May 10, 2021 the Tax Authority issued approval, in conjunction with a tax ruling, that the merger of Union Bank with and into the Bank is tax exempt pursuant to provisions of Part E.2 of the Ordinance. On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank.

J. Global minimum tax reform – Pillar 2
In recent years, the OECD issued the global minimum tax reform directives, Pillar 2 (hereinafter: "Pillar 2"). Since these directives were issued, over 135 countries have agreed to apply them.
Pillar 2 stipulates a new global minimum tax at 15%, effective as from January 1, 2024. Currently, the Israeli Tax Authority has yet to adopt these directives.
Given that the Bank has no material operations in any jurisdictions with tax rates lower than the minimum stipulated by Pillar 2, these rules are not expected to materially increase the Bank's global tax costs. The Bank will continue to monitor legislation in Israel and world-wide with regard to Pillar 2, in order to consider the potential impact of application of the new global tax.

K. On March 4, 2024, the Knesset Finance Committee approved proposed legislation "Special Payment to Achieve Budget Targets (Interim Directive – Iron Swords"), 2024, whereby in 2024-2025 a special annual payment would be imposed on banks in Israel, equal to 6% of earnings from operations in Israel (as defined in the VAT Law) for each of these years. This payment would not be tax deductible. Exempt from this payment are banking groups with total assets on their balance sheet lower than 5% of total assets of banks in Israel (but no such exemption would be granted to any small bank which is part of a banking group to which the Law applies). However, the legislation stipulates that total payment on aggregate for all banks in Israel would be capped at NIS 1.2 billion in 2024 and at NIS 1.3 billion in 2025, divided among the banks *pro rata* to their pre-tax earnings in these years.

Note 9 – Earnings per Ordinary Share

	For the year ended December 31		
	Reported amounts (NIS in millions)		
	2023	2022	2021
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	**4,910**	**4,472**	**3,188**
Weighted average number of shares (in thousands of shares)[(1)(2)]			
Weighted average number of ordinary shares used to calculate basic earnings	257,452	255,953	255,679
Weighted average number of ordinary shares used to calculate diluted earnings	258,448	257,319	258,056
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	**19.07**	**17.47**	**12.47**
Total diluted earnings attributable to holders of ordinary Bank shares	**19.00**	**17.38**	**12.35**

(1) Share of NIS 0.1 par value.
(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. For more information see Note 23 to the financial statements.

Note 10 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale bonds at fair value	Translation adjustments[(1)]	Net gains (losses) from cash flow hedges	Adjustm-ents with respect to employees' benefits	Total	Other compre-hensive income attributed to non-controlling interests	Other compre-hensive income attribu-table to share-holders of the Bank
Balance as of January 1, 2021	**82**	**(1)**	**10**	**(399)**	**(308)**	**(32)**	**(276)**
Net change in the period	16	(1)	(22)	[(2)](13)	(20)	7	(27)
Balance as of December 31, 2021	**98**	**(2)**	**(12)**	**(412)**	**(328)**	**(25)**	**(303)**
Net change in the period	(556)	-	12	[(2)]340	(204)	7	(211)
Balance as of December 31, 2022	**(458)**	**(2)**	**-**	**(72)**	**(532)**	**(18)**	**(514)**
Net change in the period	102	-	3	[(2)](17)	88	(16)	104
Balance as of December 31, 2023	**(356)**	**(2)**	**3**	**(89)**	**(444)**	**(34)**	**(410)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 10 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31								
	2023			2022			2021		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale bonds at fair value									
Net unrealized gains (losses) from adjustments to fair value	23	(5)	18	(864)	272	(592)	85	(30)	55
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[1]	127	(43)	84	55	(19)	36	(60)	21	(39)
Net change in the period	**150**	**(48)**	**102**	**(809)**	**253**	**(556)**	**25**	**(9)**	**16**
Translation adjustments									
Adjustments from translation of financial statements[2]	-	-	-	-	-	-	(1)	-	(1)
Net change in the period	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	5	(2)	3	18	(6)	12	(33)	11	(22)
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss	-	-	-	-	-	-	-	-	-
Net change in the period	**5**	**(2)**	**3**	**18**	**(6)**	**12**	**(33)**	**11**	**(22)**
Employees' benefits									
Net actuarial gain (loss) for the period	(35)	10	[4](25)	455	(156)	[4]299	(82)	27	[4](55)
Net gain (loss) reclassified to the statement of profit and loss[3]	12	(4)	8	62	(21)	41	64	(22)	42
Net change in the period	**(23)**	**6**	**(17)**	**517**	**(177)**	**340**	**(18)**	**5**	**(13)**
Total net change in the period	**132**	**(44)**	**88**	**(274)**	**70**	**(204)**	**(27)**	**7**	**(20)**
Total net change in the period attributable to non-controlling interests	**(24)**	**8**	**(16)**	**11**	**(4)**	**7**	**11**	**(4)**	**7**
Total net change in the period attributable to shareholders of the Bank	**156**	**(52)**	**104**	**(285)**	**74**	**(211)**	**(38)**	**11**	**(27)**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from the Bank's functional currency.
(3) Pre-tax amounts are included under "Salaries and related expenses" in the statement of profit and loss. For more information see Note 22.C.2.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve for the streamlining program.

Note 11 – Cash and Deposits with Banks

As of December 31

Reported amounts (NIS in millions)

	2023	2022
Cash and deposits with central banks	84,899	90,738
Deposits with commercial banks	1,651	2,935
Total cash and deposits with banks	**86,550**	**93,673**
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	85,957	92,865

For more information about liens see Note 27 below.

Note 12 – Securities

As of December 31, 2023

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized – Gains	Adjustments to fair value yet to be recognized – Losses	Fair value[1]
(1) Bonds held to maturity						
of Government of Israel	3,164	3,164	-	-	(119)	3,045
Of financial institutions in Israel	334	334	-	1	(13)	322
Of others in Israel	102	102	-	1	(2)	101
Total bonds held to maturity	**3,600**	**3,600**	**-**	**2**	**(134)**	**3,468**

	Carrying amount	Amortized cost	Balance of provision for credit losses	Cumulative other comprehensive income[4] – Gains	Cumulative other comprehensive income[4] – Losses	Fair value[1]
(2) Bonds available for sale						
of Government of Israel	9,138	9,572	-	55	(489)	9,138
of foreign governments[3]	310	314	-	-	(4)	310
Of financial institutions in Israel	438	466	-	6	(34)	438
Of foreign financial institutions	251	256	-	2	(7)	251
Asset-backed (ABS)	56	59	-	-	(3)	56
Of others in Israel	975	1,016	(8)	14	(47)	975
Of others overseas	205	208	-	5	(8)	205
Total bonds available for sale	**11,373**	**11,891**	**(8)**	**82**	**(592)**	**11,373**

	Carrying amount	Cost	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5] – Gains	Adjustments to fair value yet to be realized[5] – Losses	Fair value[1]
(3) Investment in shares not held for trading	**602**	**549**	**-**	**76**	**(23)**	**602**
Of which: Shares for which no fair value is available[6]	350	338	-	12	-	350
Total securities not held for trading	**15,575**	**16,040**	**(8)**	**160**	**(749)**	**15,443**

Note 12 – Securities – Continued

As of December 31, 2023

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized(5)		Fair value(1)
				Gains	Losses	
(4) Bonds held for trading						
of Government of Israel	7,150	7,201	-	2	(53)	7,150
Of foreign governments	273	270	-	3	-	273
Of financial institutions in Israel	4	4	-	-	-	4
Of others in Israel	23	22	-	1	-	23
Of others overseas	30	31	-	-	(1)	30
Total bonds held for trading	**7,480**	**7,528**	**-**	**6**	**(54)**	**7,480**
Shares and other securities	16	14	-	4	(2)	16
Total securities held for trading	**7,496**	**7,542**	**-**	**10**	**(56)**	**7,496**
Total securities(2)	**23,071**	**23,582**	**(8)**	**170**	**(805)**	**22,939**

(5) Additional information about bonds

Recorded debt balance of	
Problematic bonds accruing interest revenues	-
Problematic bonds not accruing interest revenues	21
	21

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 430 million and securities provided as collateral to lenders, amounting to NIS 50 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:
- For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. For more information of investments in shares – see Note 3.A.4.
- The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

As of December 31, 2022

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Balance of provision for credit losses	Adjustments to fair value yet to be recognized		Fair value[1]
				Gains	Losses	
(1) Bonds held to maturity						
of Government of Israel	3,034	3,034	-	-	(129)	2,905
Of financial institutions in Israel	390	390	-	-	(19)	371
Of others in Israel	90	90	-	-	(4)	86
Total bonds held to maturity	**3,514**	**3,514**	**-**	**-**	**(152)**	**3,362**

	Carrying amount	Amortized cost	Balance of provision for credit losses	Cumulative other comprehensive income[4]		Fair value[1]
				Gains	Losses	
(2) Bonds available for sale						
of Government of Israel	4,949	5,470	-	41	(562)	4,949
of foreign governments[3]	1,330	1,367	-	-	(37)	1,330
Of financial institutions in Israel	383	422	-	3	(42)	383
Of foreign financial institutions	262	275	-	-	(13)	262
Asset-backed (ABS)	55	57	-	-	(2)	55
Of others in Israel	838	880	-	17	(59)	838
Of others overseas	217	223	-	5	(11)	217
Total bonds available for sale	**8,034**	**8,694**	**-**	**66**	**(726)**	**8,034**

	Carrying amount	Cost	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5]		Fair value[1]
				Gains	Losses	
(3) Investment in shares not held for trading	**632**	**584**	**-**	**62**	**(14)**	**632**
Of which: Shares for which no fair value is available[6]	389	380	-	9	-	389
Total securities not held for trading	**12,180**	**12,792**	**-**	**128**	**(892)**	**12,028**

Note 12 – Securities – Continued

As of December 31, 2022

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost (for shares – cost)	Balance of provision for credit losses	Adjustments to fair value yet to be realized[5]		Fair value[1]
				Gains	Losses	
(4) Bonds held for trading						
of Government of Israel	2,749	2,804	-	-	(55)	2,749
Of foreign governments	127	127	-	1	(1)	127
Of financial institutions in Israel	1	1	-	-	-	1
Of others in Israel	25	25	-	1	(1)	25
Of others overseas	42	43	-	-	(1)	42
Total bonds held for trading	**2,944**	**3,000**	**-**	**2**	**(58)**	**2,944**
Shares and other securities	20	18	-	3	(1)	20
Total securities held for trading	**2,964**	**3,018**	**-**	**5**	**(59)**	**2,964**
Total securities[2]	**15,144**	**15,810**	**-**	**133**	**(951)**	**14,992**

(5) Additional information about bonds

Recorded debt balance of	
Problematic bonds not accruing interest revenues	35
	35

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 455 million and securities provided as collateral to lenders, amounting to NIS 203 million.
(3) US government bonds.
(4) Included in shareholders' equity in "adjustments on presentation of bonds available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer.

Remarks:

- For more information about operations involving investments in bonds – see Notes 2.D, 3.A.2 and 3.B. For more information of investments in shares – see Note 3.A.4.
- The distinction between Israeli and foreign bonds was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(6) Fair value and unrealized losses, by time period and impairment rate, of bonds available for sale, which include unrealized loss:

	Less than 12 months					12 months or more				
		Unrealized losses					Unrealized losses			
	Fair value[(1)]	0%-20%	20%-40%	Over 40%	Total	Fair value[(1)]	0%-20%	20%-40%	Over 40%	Total
										As of December 31, 2023
Bonds available for sale										
of Government of Israel	2,251	39	-	-	39	4,601	365	56	29	450
Of foreign governments(2)	-	-	-	-	-	50	4	-	-	4
Of financial institutions in Israel	84	3	-	-	3	336	31	-	-	31
Of foreign financial institutions	77	1	-	-	1	91	6	-	-	6
Asset-backed (ABS)	-	-	-	-	-	55	3	-	-	3
Of others in Israel	131	17	-	-	17	550	30	-	-	30
Of others overseas	2	-	-	-	-	148	3	5	-	8
Total bonds available for sale	**2,545**	**60**	**-**	**-**	**60**	**5,831**	**442**	**61**	**29**	**532**
										As of December 31, 2022
Bonds available for sale										
of Government of Israel	1,271	79	28	-	107	2,891	331	100	24	455
Of foreign governments(2)	1,207	32	-	-	32	47	5	-	-	5
Of financial institutions in Israel	183	19	-	-	19	191	23	-	-	23
Of foreign financial institutions	208	6	-	-	6	38	6	1	-	7
Asset-backed (ABS)	55	2	-	-	2	-	-	-	-	-
Of others in Israel	606	47	-	-	47	60	9	3	-	12
Of others overseas	106	1	4	-	5	40	2	4	-	6
Total bonds available for sale	**3,636**	**186**	**32**	**-**	**218**	**3,267**	**376**	**108**	**24**	**508**

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

(2) US government bonds.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(7) Asset-backed and mortgage-backed securities

	Carrying amount	Amortized cost	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value
				As of December 31, 2023	
Asset-backed bonds	56	59	-	(3)	56
Total asset-backed bonds available for sale	**56**	**59**	**-**	**(3)**	**56**
				As of December 31, 2022	
Asset-backed bonds	55	57	-	(2)	55
Total asset-backed bonds available for sale	**55**	**57**	**-**	**(2)**	**55**

(8) Movement in balance of provision for credit losses of bonds available for sale

	Governments and financial institutions	Asset-backed or mortgage-backed	Of others	Total
Balance of provision for credit losses as of December 31, 2021	**-**	**-**	**-**	**-**
Additions with respect to credit losses on securities for which no credit losses were previously recognized	-	-	7	7
Deductions with respect to securities sold during the period	-	-	(2)	(2)
Deductions with respect to intended sale	-	-	-	-
Net increase (decrease) in provision for credit losses with respect to securities for which credit losses were previously recognized	**-**	**-**	**5**	**5**
Accounting write-offs charged against the provision	-	-	(5)	(5)
Collection of amounts subject to accounting write-offs in previous periods	-	-	-	-
Net accounting write-offs	**-**	**-**	**(5)**	**(5)**
Other	-	-	-	-
Balance of provision for credit losses as of December 31, 2022	**-**	**-**	**-**	**-**
Additions with respect to credit losses on securities for which no credit losses were previously recognized	-	-	17	17
Deductions with respect to securities sold during the period	-	-	-	-
Deductions with respect to intended sale	-	-	-	-
Net increase (decrease) in provision for credit losses with respect to securities for which credit losses were previously recognized	**-**	**-**	**17**	**17**
Accounting write-offs charged against the provision	-	-	(9)	(9)
Collection of amounts subject to accounting write-offs in previous periods	-	-	-	-
Net accounting write-offs	**-**	**-**	**(9)**	**(9)**
Other	-	-	-	-
Balance of provision for credit losses as of December 31, 2023	**-**	**-**	**8**	**8**

Note 13 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses

	December 31, 2023					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance:						
reviewed on individual basis	82,846	-	146	82,992	42,980	125,972
reviewed on group basis	13,080	206,657	26,686	246,423	-	246,423
Total debts	**95,926**	**[2]206,657**	**26,832**	**329,415**	**42,980**	**372,395**
Of which:						
Non-accruing debts	1,466	2,153	74	3,693	1	3,694
Debts in arrears 90 days or longer	73	-	71	144	-	144
Other problematic debts	2,189	-	124	2,313	-	2,313
Total problematic debts	**3,728**	**2,153**	**269**	**6,150**	**1**	**6,151**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	1,700	-	1	1,701	11	1,712
reviewed on group basis	563	1,129	676	2,368	-	2,368
Total provision for credit losses	**2,263**	**1,129**	**677**	**4,069**	**11**	**4,080**
Of which: With respect to non-accruing debts	**375**	**107**	**60**	**542**	**1**	**543**
Of which: With respect to other problematic debts	**394**	**-**	**88**	**482**	**-**	**482**

	December 31, 2022					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks, governments and bonds	Total
Recorded debt balance:						
reviewed on individual basis	73,817	-	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	-	236,132
Total debts	**86,977**	**[2]196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Of which:						
Non-accruing debts	1,193	1,329	55	2,577	1	2,578
Debts in arrears 90 days or longer	69	-	44	113	-	113
Other problematic debts	1,136	-	123	1,259	-	1,259
Total problematic debts	**2,398**	**1,329**	**222**	**3,949**	**1**	**3,950**
Balance of provision for credit losses with respect to debts:						
reviewed on individual basis	1,106	-	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	-	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**
Of which: With respect to non-accruing debts	**199**	**67**	**42**	**308**	**1**	**309**
Of which: With respect to other problematic debts	**257**	**-**	**60**	**317**	**-**	**317**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 13,378 million (as of December 31, 2022: NIS 12,566 million).

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	For the year ended December 31, 2023					
	Provision for credit losses					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	882	247	324	1,453	10	1,463
Accounting write-offs[1]	(290)	-	(257)	(547)	-	(547)
Collection of debts written off for accounting purposes in previous years[1]	137	-	123	260	-	260
Net accounting write-offs	(153)	-	(134)	(287)	-	(287)
Balance of provision for credit losses at end of period	**2,419**	**1,149**	**702**	**4,270**	**11**	**4,281**
Of which: With respect to off balance sheet credit instruments	**156**	**20**	**25**	**201**	**-**	**201**

	For the year ended December 31, 2022					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses[2]	275	(32)	149	392	-	392
Expenses with respect to credit losses	336	99	97	532	-	532
Accounting write-offs[1]	(330)	-	(189)	(519)	-	(519)
Collection of debts written off for accounting purposes in previous years[1]	128	-	122	250	-	250
Net accounting write-offs	(202)	-	(67)	(269)	-	(269)
Other[3]	25	31	79	135	-	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**
Of which: With respect to off balance sheet credit instruments	**199**	**5**	**16**	**220**	**-**	**220**

	For the year ended December 31, 2021					
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses (income) with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs[1]	(241)	(10)	(143)	(394)	-	(394)
Collection of debts written off for accounting purposes in previous years[1]	165	3	98	266	-	266
Net accounting write-offs	(76)	(7)	(45)	(128)	-	(128)
Other[3]	37	2	15	54	-	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**-**	**16**	**211**	**-**	**211**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large non-accruing debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

(2) Including with respect to residential mortgages of insignificant amount.

(3) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.

Note 14 – Loans to Governments

As of December 31

Reported amounts (NIS in millions)

	2023	2022
Loans to Government of Israel	1	19
Loans to foreign governments	479	299
Total loans to governments	**480**	**318**

Note 15 – Investments in and Details of Investee companies

As of December 31

Reported amounts (NIS in millions)

A. Item composition:

	2023	2022
	Associated companies	**Associated companies**
Investment in shares stated on equity basis	207	92
Subordinated notes and capital notes	35	35
Total investments	**242**	**127**
Of which:		
Losses accrued since acquisition date	(20)	(21)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	(2)	(2)

B. Bank's share in net profits of associated companies, net:

	2023	2022	2021
Bank's share in net profits (losses) of associated companies(1)(2)	1	5	(10)

(1) There are no losses or reversal of losses from impairment of investee companies.
(2) The tax effect on earnings of associated companies is less than NIS 1 million.

Note 15 – Investments in and Details of Investee companies – continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31			
		2023	2022	2023	2022
C. Details of principal investee companies[1]:					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd.[2]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot INVEST Ltd.	Real investments	100%	100%	100%	100%
Mizrahi Tefahot Leasing Ltd.	Leasing	100%	100%	100%	100%

	December 31, 2023		
	Cost	Accumulated amortization	Amortized balance
D. Balance of goodwill with respect to investees:[2][3]	140	53	87

(1) The above list does not include wholly owned and controlled companies constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(2) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill.

(3) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2023 amounted to NIS 14 million (identical to amortized balance as of December 31, 2022 and as of December 31, 2021), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2023 amounted to NIS 4 million (identical to amortized balance as of December 31, 2022 and as of December 31, 2021).

(4) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

(5) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.

Investment in shares at equity value[(4)]		Goodwill balance[(2)]		Other capital investments		Contribution to net profit (loss) attributable to shareholders of the banking corporation		Dividends recorded		Other items accrued under shareholders equity[(5)]	
As of December 31								For the year ended December 31			
2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
1,242	1,088	69	69	-	-	170	140	-	(15)	(16)	7
1,498	1,412	-	-	-	-	86	82	-	-	-	-
103	98	-	-	-	-	5	3	-	-	-	-
540	160	-	-	139	139	3	23	-	-	-	-
258	193	-	-	700	700	66	54	-	-	-	34

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements)(1)	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
Cost of assets as of December 31, 2021(4)	**1,427**	**1,326**	**3,202**	**5,955**
Additions	98	45	249	392
Disposals	(2)(514)	(227)	(41)	(782)
Cost of assets as of December 31, 2022(4)	**1,011**	**1,144**	**3,410**	**5,565**
Additions	102	44	293	439
Disposals	-	(2)	-	(2)
Cost of assets as of December 31, 2023	**1,113**	**1,186**	**3,703**	**6,002**
Depreciation and impairment losses				
Accumulated depreciation as of December 31, 2021(4)	**649**	**1,071**	**2,501**	**4,221**
Depreciation	42	40	246	328
Impairment	-	-	4	4
Disposals	(269)	(214)	(8)	(491)
Accumulated depreciation as of December 31, 2022(4)	**422**	**897**	**2,743**	**4,062**
Depreciation	32	46	265	343
Impairment	-	-	68	68
Disposals	-	(2)	-	(2)
Accumulated depreciation as of December 31, 2023	**454**	**941**	**3,076**	**4,471**
Book value(3):				
As of December 31, 2021(4)	**778**	**255**	**701**	**1,734**
As of December 31, 2022(4)	**589**	**247**	**667**	**1,503**
As of December 31, 2023	**659**	**245**	**627**	**1,531**
Weighted average depreciation rate as of December 31, 2022	4.0%	14.6%	23.3%	
Weighted average depreciation rate as of December 31, 2023	3.9%	14.4%	22.5%	

B. Additional information

Depreciation rates are as follows:

Buildings	2%-4%
Leasehold improvements	7%
Office equipment and furniture	6%-25%
Vehicles	15%-20%
Computers, software usage rights and costs	20%-33%

(1) Installations, rights in leasehold and payments on account of some of the buildings and leasing rights, amounting to NIS 68 million (as of December 31, 2022: NIS 70 million) have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries.
(2) For more information about sale of the entire interest in 24 rental properties across Israel zoned for different uses, see Note 5 to the 2022 financial statements.
(3) Includes amortized capitalized cost of independently developed computer software as of December 31, 2023 amounting to NIS 594 million (December 31, 2022: NIS 578 million; December 31, 2021: NIS 538 million). For more information about policy on software cost capitalization, see Note 1.D.9.
(4) Reclassified.

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated	
	December 31	
	2023	2022
Not designated for sale	18	18
Includes – leased to others	10	10
Designated for sale	-	-

D. As of December 31, 2023, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 72 million (December 31, 2022 – NIS 221 million).

E. In 2017, the Bank acquired land in order to concentrate, in as much as possible, the Bank's headquarters units in a single central site, in Lod. The acquisition cost amounted to NIS 27 million. For information about this commitment, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.

F. Information with respect to leases

Expenses with respect to leases:

	2023	2022	2021
Total expenses with respect to leases	**117**	**146**	**138**

Additional information about leases:

	2023	2022	2021
Capital gain from sale and lease-back transactions, net	-	233	16
Cash flow with respect to current operations with respect to operational leases	119	146	140
Right-to-use assets recognized with respect to new operational leases	94	296	173
Weighted average remaining term (in years)	5.4	4.9	4.5
Weighted average discount rate	1.5	1.4	1.3

Non-capitalized cash flows and liabilities with respect to operational leases, by term to maturity:

	As of December 31, 2023		As of December 31, 2022	
	Non-capitalized cash flows	Liability with respect to lease	Non-capitalized cash flows	Liability with respect to lease
Up to 1 year	99	99	128	127
Over 1 year to 2 years	86	84	102	101
Over 2 years to 3 years	70	68	86	84
Over 3 years to 4 years	66	62	68	66
Over 4 years to 5 years	61	57	61	57
Over 5 years	447	371	452	380
Total	**829**	**741**	**896**	**814**

Note 17 – Other Assets

Reported amounts (NIS in millions)

	December 31	
	2023	**2022**
Deferred taxes receivable, net[(1)]	2,414	2,098
Excess of advance income tax payments over current provisions	325	87
Revenues receivable	115	118
Issuance expenses for bonds and subordinated notes[(2)]	130	121
Right-to-use asset with respect to operational lease[(3)]	739	780
Other receivables and debit balances	725	569
Total other assets	**4,448**	**3,773**

(1) For further details, see Note 8.
(2) For more information about bonds and subordinated notes see Note 20.
(3) For more information about right-to-use asset with respect to operational lease, see Note 16.

Note 18 – Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

A. Deposit types by location solicited and depositor type

	2023	2022
In Israel		
On-call		
Non interest-bearing	76,907	(1)91,961
Interest-bearing	32,926	(1)39,737
Total on-call	**109,833**	**131,698**
Term deposits	236,499	204,829
Total deposits in Israel(2)	**346,332**	**336,527**
Outside of Israel		
On-call		
Non interest-bearing	424	409
Interest-bearing	130	66
Total on-call	**554**	**475**
Term deposits	11,667	7,512
Total deposits overseas	**12,221**	**7,987**
Total deposits from the public	**358,553**	**344,514**

(2) Includes:

Deposits from individuals	**160,755**	**151,578**
Deposits from institutional investors	**78,904**	**75,938**
Deposits from corporations and others	**106,673**	**109,011**

b. Deposits from the public by size

	2023	2022
Maximum deposit (NIS in millions)		
Up to 1	105,025	99,561
Over 1 to 10	93,024	86,771
Over 10 to 100	45,648	46,517
Over 100 to 500	37,466	35,348
Above 500	77,390	76,317
Total	**358,553**	**344,514**

(1) Reclassified.

Note 19 – Deposits from Banks

As of December 31

Reported amounts (NIS in millions)

	December 31	
	2023	**2022**
In Israel		
Commercial banks:		
On-call deposits	876	310
Term deposits	914	1,224
Acceptances	94	230
Central banks:		
Term deposits	2,677	4,877
Outside of Israel		
Commercial banks:		
On-call deposits	10	201
Term deposits	-	152
Total deposits from banks	**4,571**	**6,994**

Note 20 – Bonds and subordinated notes

As of December 31

Reported amounts (NIS in millions)

	Average maturity in years (1)	Internal rate of return(2)	December 31	
			2023	**2022**
Bonds and subordinated notes not convertible into shares:				
In Israeli currency – non-linked				
Bonds	1.55	2.63%	7,582	5,296
Subordinated notes(3)	0.09	4.65%	92	92
In Israeli currency – CPI-linked				
Bonds	3.73	0.60%	24,010	21,924
Subordinated notes(3)	2.93	6.25%	3,052	3,364
Bonds and subordinated notes convertible into shares:				
In Israeli currency – CPI-linked				
Subordinated notes(3)	0.09	3.70%	142	484
In foreign currency – USD				
Subordinated notes(3)	2.35	3.10%	2,192	2,127
Total bonds and subordinated notes	**3.11**	**1.36%**	**37,070**	**33,287**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) Upon liquidation, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

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

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public in 2023 CPI-linked pursuant to prospectus, contingent bonds and subordinated notes for NIS 5.3 billion and non-linked commercial paper for NIS 2.5 billion, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
On February 19, 2023, Tefahot Issuance issued commercial paper (Series 1) with total par value of NIS 1.1 billion for consideration amounting to NIS 1.1 billion.
On June 11, 2023, Tefahot Issuance issued a new series of CPI-linked bonds (Series 67), with total par value of NIS 2.0 billion, for consideration amounting to NIS 2.0 billion.
On December 25, 2023, Tefahot Issuance issued a new series of CPI-linked bonds (Series 68), a series of contingent subordinated notes (Series 69) and commercial paper (Series 2), NIS-denominated bearing variable interest. A new series of bonds (Series 68) was issued with par value of NIS 2.7 billion. A new series of contingent subordinated notes (Series 69) was issued with par value of NIS 0.6 billion. A new series of commercial paper (Series 2) was issued with par value of NIS 1.4 billion. Total gross consideration received by the company in public offering of bonds (Series 68, contingent subordinated notes (Series 69) and commercial paper (Series 2) amounted to NIS 4.6 billion.

On March 1, 2023, principal of bonds (Series 57) was partially redeemed, for NIS 0.2 billion.
On April 13, 2023, principal of bonds (Series 63) was partially redeemed, for NIS 0.2 billion. Principal of bonds (Series 64) was partially redeemed, for NIS 0.1 billion.
On October 22, 2023, contingent subordinated notes (Series 48) were fully redeemed early by the company, for NIS 0.8 billion.
On October 29, 2023, bonds (Series 51) was fully redeemed, for NIS 2.8 billion.
On December 7, 2023, bonds (Series 66) was partially redeemed, for NIS 0.1 billion.

Note 20 – Bonds and subordinated notes – Continued

As of December 31

Reported amounts (NIS in millions)

C. The Bank has contingent convertible subordinated notes (CoCo) with loss-absorption provisions through principal write-off. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions. The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision. In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part. Rating agency Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-.

In August 2023, further to the Supervisor of Banks' approval, Bank Yahav conducted early redemption of contingent subordinated notes (CoCo) (recognized by the Supervisor of Banks as Tier II capital of the Bank), for NIS 0.2 billion. In October 2023, further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 48, recognized by the Supervisor of Banks as Tier II capital of the Bank), for NIS 0.8 billion.

In December 2023, Tefahot Issuance issued a new series of contingent subordinated obligatory notes (CoCo) (Series 69), CPI-linked, amounting to NIS 0.6 billion par value, for NIS 0.6 billion.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31	
	2023	**2022**
Provision for deferred taxes, net(1)	234	207
Excess current reserves over advance income tax payments	37	192
Excess of provision over funding severance pay, retirement and pension(2)	1,862	2,006
Unearned revenues	84	199
Deferred credit balance from acquisition of Union Bank	413	649
Accrued expenses	1,439	1,535
Provision for vacations and long- service bonus	285	324
Guarantees payable	158	166
Provision for doubtful debts for off-balance sheet items	201	220
Payables for credit card operations	2,530	2,825
Market value of securities sold short	1,681	1,145
Liabilities with respect to operational leases(3)	741	783
Other payables and credit balances	2,204	3,117
Total other liabilities	**11,869**	**13,368**

(1) For further details, see Note 8.
(2) For more information see Note 22 "Employee rights".
(3) For more information about liability with respect to operational leases, see Note 16.

Note 22 – Employees' Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman.

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Law (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Law") and following revisions to Proper Conduct of Banking Business Directive 301A on remuneration ("the new remuneration policy").

   For more information about the revised officer remuneration policy at the Bank for 2024-2026, as from January 1, 2024, see section 3 below.

   For complete information about terms of office and employment of the Chairman of the Board of Directors, see Appendix B to report dated January 9, 2017 and report dated February 14, 2017.

   The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

   During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

   In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

   Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Law and the statutory rate of contributions to severance pay and provident funds.

   Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Law, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

   Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Law, including pursuant to Section 2(b) of the Law, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year).

Note 22 – Employee Rights – continued

With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Law, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of the employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Law.

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On October 15, 2020, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Moshe Lari as Bank President & CEO (hereinafter: "President & CEO").

   The Bank President & CEO is entitled to gross monthly salary of NIS 230,000. This salary is fully linked to changes in the Consumer Price Index ("Salary"). Notwithstanding the foregoing, in case of decrease in the CPI, the Salary would not be reduced accordingly. The Bank provides to the Bank President & CEO a budget of 15.33% for Bank contributions towards provident, pension and severance pay funds, to be transferred in whole or in part and as the case may be, to one or more provident funds as selected by the Bank President & CEO and in conformity with the cumulative conditions set forth in Appendix D to the report convening the General Meeting, dated August 27, 2020.

   The Bank President & CEO is also eligible to employer contributions to a study fund of the former's choice at 7.5% of the Salary.

   Upon approval of the terms of office and employment of the Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) of the Remuneration of Officers in Financial Corporations Law (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 (hereinafter: "the Executive Remuneration Law") amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

Note 22 – Employee Rights – continued

Upon termination of employment, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries (excluding social benefits), as they were immediately prior to their appointment to Bank President & CEO. He would also be entitled to social benefits with respect to this amount (to be accrued over the first two years in office as Bank President & CEO) (all these amounts jointly: "Acclimation Bonus for the President & CEO").

The Remuneration Committee and the Board of Directors may award to the Bank President & CEO an additional acclimation bonus amounting to the difference between the Acclimation Bonus for the President & CEO and an amount equal to six salaries, as they may be at that time, plus social benefits with respect there to, all subject to the maximum allowed by the Executive Remuneration Law.

Furthermore, upon termination of employment, the Bank would pay to the Bank President & CEO a retirement bonus equal to 150% of their monthly salary for December 2016 multiplied by the number of years of service to the Bank through 2016.

The Remuneration Committee and the Board of Directors may, at their own discretion, award to the Bank President & CEO performance-based remuneration – a monetary bonus not to exceed three salaries ("the maximum bonus") or part thereof for part of the bonus year. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would constitute, in whole or in part, equity-based remuneration. The value of equity-based remuneration to be awarded to the Bank President & CEO for that bonus year (if awarded) would not exceed (on aggregate 100% of the maximum bonus.

Eligibility of the Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Bank President & CEO would be subject to restitution provisions as per Section 6.10 of the Bank's remuneration policy. Such restitution provisions would not apply to half of the acclimation bonus pursuant to terms of employment of the Bank President & CEO, prior to being appointed Bank President & CEO, which constitutes variable remuneration (due to transitional provisions of the Supervisor of Bank's directive with regard to no impact to previously accrued rights).

Either party may announce discontinuation of employment at any time, for any reason and with no need to justify their position to the other party, subject to providing to the other party six months' advance notice.

During the early notification period, the Bank President & CEO would be required to work as usual and in full, but the Bank may waive such period, in whole or in part, and may terminate the work of the Bank President & CEO. In such case, the Bank will pay to the Bank President & CEO for the portion of the notice period in which the Bank waived the Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

For more information about the revised officer remuneration policy at the Bank for 2024-2026, as from January 1, 2024, see section 3 below.

3. Officer remuneration policy

On July 6, 2021, further to approval of the Bank's strategic plan, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the officer remuneration policy at the Bank (hereinafter: "officer remuneration policy"), effective for three (3) years through December 31, 2023. The revised remuneration policy incorporates provisions of the Companies Law, 1999, the Remuneration of Officers in Financial Corporations Law (Special Approval and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Law") and Proper Conduct of Banking Business Directive A301 "Remuneration" with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, inter alia, to the Bank's strategic plan and to current employment terms of officers at the Bank.

Note 22 – Employee Rights – continued

The remuneration policy incorporates provisions of the Companies Law and the Supervisor of Bank's directives with regard to remuneration. The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for an additional fixed component (named "Retention bonus" in the previous policy) equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Law (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million (plus linkage differentials to the Consumer Price Index, as stated in the Executive Remuneration Law).

The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

On December 20, 2023, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter "revised officer remuneration policy"), effective for 2024-2026 as from January 1, 2024.

The revised remuneration policy incorporates provisions of the Corporate Law and the Supervisor of Banks' directives on remuneration, as well as provisions of the Remuneration of Officers in Financial Corporations Law (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Law"). The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 100% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 200% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 80% of fixed remuneration and that such officers would be eligible for an additional fixed component (equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy).

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Law (i.e excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors.

Note 22 – Employee Rights – continued

As for other officers (other than the Bank President & CEO and Board members), the Remuneration Committee and the Board of Directors may award annual remuneration in excess of that specified in Section 2(a) of the Executive Remuneration Law, provided that it does not exceed the maximum remuneration allowed pursuant to Section 2(b) of the Executive Remuneration Law, excluding severance pay contributions and provident fund contributions by law).

4. Officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Remuneration policy for all Bank employees

   In July 2021, the Bank's Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a remuneration policy for three (3) years through December 31, 2023 for all Bank employees, other than officers who are subject to the remuneration policy for Bank officers, as noted above (hereinafter: "Remuneration policy for all Bank employees").

   The remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2021-2023.

   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

   In December 2023, the Bank's Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for three (3) years (for 2024-2026) for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees").

6. An extraordinary General Meeting of Bank shareholders, held on April 19, 2023, approved payment of an additional bonus for 2022, other than in conformity with the Bank's remuneration policy, amounting to NIS 350 thousand, to each of the following officers: Ms. Ayala Hakim and Mr. Ofir Morad.

7. On May 3, 2023, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, a proposed option allotment to the Bank President & CEO, to Bank officers (other than Board members) and to other managers at the Bank and at its subsidiaries for 2023, in conformity with Section 15b(1)(a) of the Securities Law based on the outline for 2021-2023. For more information see Note 23.

8. On December 20, 2018, a collective bargaining agreement was signed with the Managers' Organization for 2018-2022. Highlights of the agreement are as follows:

   - This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global overtime and expense reimbursement (per diem, car expenses, education and so forth).
   - The base pay includes all fixed monthly pay components paid prior to the effective start date of this agreement, except for additional seniority pay and additional management pay.
   - The annual additional seniority pay would be at 1% of the base pay.
   - The additional management pay would be determined based on managerial complexity.
   - Overtime will be paid on a global basis.
   - Updated contribution towards expenses for kindergarten, after-school activity and higher education for managers' children.
   - Voluntary retirement program.
   - Monthly pay increase of NIS 2,500 per manager, as from January 1, 2018.
   - Differential pay increase for managers for 2019-2022 (based on return on equity for 2020-2022).
   - Absolutely complete calm labor relations throughout the term of the agreement.

As of December 31, 2023, the collective bargaining agreement on wages and employment terms with the Manager Council has yet to be renewed.

Note 22 – Employee Rights – continued

9. 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.

Highlights of this agreement regarding salary and bonuses are as follows:

- An additional NIS 1,000 was paid on top of each employee's monthly salary, as well as an additional NIS 200 for branch employees, for the period as from January 1, 2022. These amounts would be linked to the Consumer Price Index as from January 1, 2023.
- Additional pay to employees in certain roles, such as Team Leader and Authorized Signatory.
- The parties agreed that the base salary would be increased by 3% in each year between 2023-2024 and by 2% in each year between 2025-2026.
- Social benefit contributions were revised so as to expand the base salary for retirement contributions and, in addition, the base salary for contributions to study funds was made identical to that for retirement contributions.
- On September 1, 2023, the Bank paid a bonus to employees hired prior to January 1, 2022 (who are still employed by the Bank), whose amount equals two 13th monthly salaries; employees hired on or after January 1, 2022 (who are still employed by the Bank) paid a bonus equal to one 13th monthly salary.

Various understandings were reached to enhance the Bank's managerial flexibility and to promote excellence, especially 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. These include, *inter alia*:

- Increase in number of individual employment contracts at Bank headquarters.
- Potential individual award of pay increase to headquarters employees, subject to certain conditions.
- Extension of the trial period for a specified number of employees, up to 5 years.
- Option to reassign employees at the Bank's discretion.
- Option to terminate up to 70 employees, initiated by the Bank due to unsuitability of employees classified as making a low contribution, during the term of this agreement.
- Considering the expected transition of Bank headquarters employees to the new Bank campus in Lod, the parties agreed that work conditions (including with respect to employee welfare) in the new campus would be determined by the Bank exclusively, after consulting the employee union. The employee union shall have no claims whatsoever with respect to transition to the new campus.
- Full and complete labor relations would be maintained throughout the term of the agreement.

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.

The Bank's financial statements include the effect of the payroll agreement. This agreement has no material impact on the Bank's financial statements in 2023 and should have no material impact in subsequent years either. Payroll expenses at the Bank for all of 2023 include NIS 85 million with respect to the agreement, and should include an additional NIS 30-45 million in each year between 2024-2026.

10. Labor and payroll agreements at the Technology Division

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. Negotiations on signing a new agreement are under way.

Note 22 – Employee Rights – continued

11. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

12. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

13. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

14. Long-service bonuses

    Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

15. Reserve with respect to tuition pay

    Bank employees under the collective bargaining agreement hired by August 16, 2017 are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

16. Reserves with respect to long-service bonuses, tuition and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government bonds in Israel plus the average yield spread for corporate bonds rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate bonds rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government bonds, all as of the reporting date.

    The calculation takes into account future real increase in pay of between 3.50%-4.50%.

    The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

17. Union Bank merger

    - Agreement between Igud Systems and Mizrahi Tefahot Technology Division

      On April 11, 2021, an agreement was signed (hereinafter: "the Agreement") between Igud Systems Ltd. (hereinafter: "Igud Systems") and Mizrahi Tefahot Technology Division Ltd. (hereinafter: "Technology Division") and the Employee Union of Igud Systems, which governs the onboarding of Igud Systems employees subject to the Agreement, as employees of the Technology Division, upon the operational merger between the Technology Division and Igud Systems, each one based on their employment status at Igud Systems immediately prior to the merger, and also governs the employment terms and conditions of Igud Systems employees upon onboarding in the Technology Division.

      On January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. was completed.

Note 22 – Employee Rights – continued

- 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.

18. Bank Yahav

Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees. The plan provides a defined benefit based on years of service and most recent salary.

Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

To some of its employees, Bank Yahav committed to transfer, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to supplement the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

On June 29, 2023, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration for 2023-2027.

B. Liability amounts with respect to benefits by type:

	December 31	
	2023	**2022**
	NIS in millions	
Post-retirement benefits[1]		
Liability amount	195	204
Benefits post termination and prior to retirement[2]		
Liability amount	2,106	2,193
Fair value of plan assets	464	455
Excess liability over plan assets	**1,642**	**1,738**
Benefits prior to termination of employment[3]		
Liability amount	142	163
Excess liability included under Other Liabilities	**1,979**	**2,105**
Of which: With respect to overseas employee benefits	**4**	**4**

(1) Holiday gifts and other post-retirement employee benefits.
(2) Pension, severance pay and other benefits in defined-benefit plan, including balance of liability with respect to employees who have retired.
(3) Primarily jubilee bonus and tuition for current employees.

Note 22 – Employee Rights – continued

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

	December 31	
	2023	2022
	NIS in millions	
Obligation with respect to expected benefit at start of period	2,333	2,747
Cost of service	54	83
Cost of interest	94	70
Actuarial loss (gain)	128	(343)
Benefits paid	(308)	(224)
Obligation with respect to expected benefit at end of period	**2,301**	**2,333**
Obligation with respect to cumulative benefit at end of period[2]	**2,152**	**2,185**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.
(2) Excludes any assumptions with regard to level of future remuneration.

1.2. Change in fair value of plan assets and plan funding status

	December 31	
	2023	2022
	NIS in millions	
Fair value of plan assets at start of period	455	498
Actual return on plan assets	15	(35)
Deposits to plan by the Bank	7	8
Benefits paid	(13)	(16)
Fair value of plan assets at end of period	**464**	**455**
Funding status – net asset recognized at end of period	**464**	**455**

1.3. Amounts recognized on the consolidated balance sheet

	December 31	
	2023	2022
	NIS in millions	
Amounts recognized under Other Liabilities	**1,837**	**1,942**

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

	December 31	
	2023	2022
	NIS in millions	
Net actuarial loss	(244)	(155)
Total – recognized under Other Comprehensive Income	**(244)**	**(155)**

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

	December 31	
	2023	2022
	NIS in millions	
Obligation with respect to expected benefit	2,301	2,397
Obligation with respect to cumulative benefit	2,152	2,185
Fair value of plan assets	464	455

Note 22 – Employee Rights – continued

2. Expenses during the reported period

2.1. Net benefit cost components recognized in profit and loss

	For the year ended December 31		
	2023	2022	2021
	NIS in millions		
Under payroll and associated expenses			
Cost of service	54	83	84
Under other expenses			
Cost of interest	94	70	53
Expected return on plan assets	(24)	(20)	(13)
Deduction of non-allowed amounts:			
Net actuarial loss	12	62	62
Total under other expenses	**82**	**112**	**102**
Total benefit cost, net	**136**	**195**	**186**

2.2. Changes to plan assets and benefit obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31		
	2023	2022	2021
	NIS in millions		
Net actuarial loss (gain) for the period	35	(455)	87
Amortization of actuarial loss(1)	(12)	(62)	(62)
Total – recognized under Other Comprehensive Income	**23**	**(517)**	**25**
Total benefit cost, net	**136**	**195**	**186**
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	**159**	**(322)**	**211**

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2024, before tax effect

	NIS in millions
Net actuarial loss	10
Total expected to be deducted from Cumulative Other Comprehensive Income	**10**

(1) Actuarial loss due to current changes in discount rates during the reported year would be amortized using the straight line method over the remaining average term of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.D.13 to the financial statements.

Note 22 – Employee Rights – continued

3. Assumptions

3.1 Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

3.1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31	
	2023	2022
		In %
Discount rate	2.16	1.75
Discount rate – CPI	2.46	2.50
Departure rate	2.65	2.65
Remuneration increase rate	3.50	3.50

3.1.2. Key assumptions used to measure benefit cost for the period (in %):

			December 31
	2023	2022	2021
			In %
Discount rate	4.25	2.54	2.09
Expected long-term return on plan assets	3.55	3.27	2.88
Remuneration increase rate	3.50	3.50	3.50

3.2. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
	December 31		December 31	
	2023	2022	2023	2022
Discount rate	(190)	(196)	233	242
Departure rate	124	77	(121)	(139)
Remuneration increase rate	109	108	(93)	(91)

4. Plan assets

4.1. Fair value composition of plan assets

Asset type					December 31	
					2023	2022
		Level 1	Level 2	Level 3	Total	Total
Cash and deposits with banks		23	-	-	23	18
Shares		88	4	-	92	90
Government assistance to legacy pension funds		-	10	-	10	12
Other		14	69	29	112	100
Bonds:	Government	23	108	-	141	155
	Designated Government	-	13	-	13	12
	Corporate	38	34	-	72	68
Total		**196**	**238**	**29**	**463**	**455**

Note 22 – Employee Rights – continued

4.2. Fair value of plan assets by asset type and allocation target for 2023 (in %)

Asset type		Allocation target	Percentage of plan assets	
		For year	As of December 31	
		2024	2023	2022
Cash and deposits with banks		5	5	4
Shares		20	20	20
Government assistance to legacy pension funds		2	2	3
Other		24	24	22
Bonds:	Government	30	30	34
	Designated Government	3	3	3
	Corporate	16	16	14
Total		**100**	**100**	**100**

5. cash flows

5.1. Deposits to defined-benefit pension plan

Asset type	Allocation target	Actual deposits	
	For year	For the year ended December 31	
	2024(1)	2023	2022
Deposits	7	7	8

(1) Estimated deposits expected to be paid into defined-benefit pension plans in 2024.

5.2 Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2024	196
2025	159
2026	153
2027	143
2028	111
2029-2033	394
2034 and beyond	945
Total	**2,101**

Note 23 – Share-based Payment Transactions

A. Stock option plan for the President & CEO

In conjunction with the stock option plan approved by the Bank Board of Directors on July 26, 2021, the Bank President & CEO was allotted 18,468 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.

The options allotted with respect to 2021 may be exercised as from September 5, 2023. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 99.36(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the former President and until the known CPI upon the exercise date. Furthermore, the closing price cap was set at NIS 140, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.11%, reflecting the standard deviation for a period of 8 years. The risk-free interest rate used to value the options was estimated at (1.44%).

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date by the Board of Directors of the option award, is NIS 11.75.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounted to NIS 217 thousand.

In conjunction with the 2022 option plan, approved by the Bank Board of Directors on May 24, 2022, the Bank President & CEO was allotted 38,409 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.

The options allotted with respect to 2022 may be exercised as from June 26, 2024. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 118.10(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options to the President and until the known CPI upon the exercise date. Furthermore, the closing price cap was set at NIS 163, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.61%, reflecting the standard deviation for a period of 8 years. The risk-free interest rate used to value the options was estimated at (0.48%).

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 13.33.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 512 thousand.

In conjunction with the 2023 option plan, approved by the Bank Board of Directors on May 3, 2023, the Bank President & CEO was allotted 35,355 options. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividends distributions etc.

The options allotted with respect to 2023 may be exercised as from June 13, 2025. The exercise price for each option allotted to the Bank President pursuant to the plan is NIS 114.88(1) plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors of the allotment of options, through the known CPI upon the exercise date. Furthermore, the closing price cap was set at NIS 154.40, plus linkage differentials to the CPI, from the known CPI upon approval by the Board of Directors to the known CPI upon exercise.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation of 23.54%, reflecting the standard deviation for a period of ten years. The risk-free interest rate used to value the options was estimated at 1.08%.

Note 23 – Share-based Payment Transactions – Cont.

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is NIS 16.21.

The theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 573 thousand.

The options in each of the plans were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

In 2023, the Bank President & CEO exercised 47,101 options from previous plans, at an exercise price of NIS 80.87(1). The average share price upon exercise of options into shares in 2023 was NIS 120.90.

As of December 31, 2023, the Bank President & CEO had 85,391 options at an exercise price of NIS 101.29(1).

B. Stock option plan for employees

On May 3, 2023, the Bank’s Board of Directors, after receiving approval by the Remuneration Committee, approved the offering of options to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2023, pursuant to Section 15b(1)(a) of the Securities Law, as stated in the employee offering outline dated July 26, 2021, including approval of pools for option warrant issuance in 2023 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

As resolved by the Board of Directors on May 3, 2023, the following option plans for 2023 were approved:

- Option plan A – up to 300,809 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 76,995 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 135,709 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 34,736 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 554,600 options C to be awarded to up to seventeen key Bank employees and up to seventeen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 141,955 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 903,975 options D to be awarded to up to sixty-seven managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 231,380 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – Up to 1,512,950 options E to be awarded to up to two hundred and sixty-three managers employed by the Bank subject to collective bargaining agreements, and to up to twenty-one managers at Bank subsidiaries, exercisable for up to 387,252 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans.

In case of dividend distribution, bonus share distribution, rights issuance, split or reverse split of share capital and re-structuring at the Bank, the adjustments shall be made as set forth in the Outline employee offering.

The options issued in the name of the Trustee on behalf of each officer or key employee, pursuant to option plans A, B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2026; and (3) April 1, 2027, and each lot of options would expire 18 months after each of said dates.

All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – Cont.

Moreover, eligibility for options shall be determined based on additional criteria, as set forth in the Outline.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 57 million.

The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2023 through the end of the year.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in the employee offering outline dated July 26, 2021.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on May 3, 2023:

Exercise price	- NIS 114.88[1]
Risk-free interest rate	- 1.66% – 1.05%
Annualized standard deviation	- 23.54%

					Option plan
	A	**B**	**C**	**D**	**E**
Number of options (in thousands)	301	136	555	904	1,513
Term to expiration (in years)	3.59-5.42	3.59-5.42	3.59-5.42	4.09	4.09
Average fair value per single option	16.01	16.01	16.00	16.97	16.97
Total fair value (NIS in thousands)	4,816	2,173	8,874	15,340	25,675

(1) Plus linkage differentials and dividend adjustment.

Below is information on the number of stock options and their exercise price for options awarded on May 3, 2023:

		2023
	Number of options	**Weighted average exercise price (in NIS)**
Outstanding at year start	-	-
Granted during the year[1]	3,408,043	114.88
Forfeited during the year	13,003	114.88
Exercised during the year	-	-
Outstanding at year end	3,395,040	114.88

(1) The weighted average fair value of stock options granted in 2023 was NIS 16.52.

Note 23 – Share-based Payment Transactions – Cont.

Below is information about stock options outstanding:(1)(2)(3)(4)(5)

	December 31, 2023		December 31, 2022		December 31, 2021	
Range of exercise prices (in NIS)	**99-120**	**70-80**	**99-120**	**70-80**	**99-120**	**70-80**
Number of stock options	7,653,890	302,071	6,685,098	916,045	3,319,550	2,981,856
Weighted average exercise price (in NIS)	114.50	70.92	108.82	71.35	99.36	71.23
Weighted average remaining contractual term (in years)	2.96	1.60	3.17	2.00	3.74	2.57
Of which vested:						
Number of stock options	245,067	38,400	-	133,123	-	188,226
Weighted average exercise price (in NIS)	99.36	71.23	-	71.24	-	72.37

Below is information about the number of stock options for all plans:(1)(2)(3)(4)(5)

	2023		2022		2021	
	Number of options	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**	**Number of options**	**Weighted average exercise price (in NIS)**
Outstanding at year start	7,601,143	104.30	6,301,406	85.86	7,336,147	71.21
Granted during the year(1)	3,408,043	114.88	3,385,298	118.10	3,327,465	99.36
Forfeited during the year	13,003	-	19,750	-	7,915	-
Exercised during the year	3,040,222	93.78	2,065,811	71.17	4,354,311	71.24
Outstanding at year end	7,955,961	112.85	7,601,143	104.30	6,301,406	86.05

(1) On August 31, 2017, the Bank's Board of Directors approved allocation of 4,363,275 options to Bank officers. The weighted average fair value of stock options granted in 2019 was NIS 13.13. The weighted average share price upon exercise of options into shares during 2023 was NIS 114.53 (2022: NIS 122.91).

(2) On June 22, 2020, the Bank's Board of Directors approved allocation of 3,295,187 options to Bank officers. The weighted average fair value of stock options granted in 2020 was NIS 10.26. The weighted average share price upon exercise of options into shares during 2023 was NIS 116.62 (2022: NIS 125.32).

(3) On July 26, 2021, the Bank's Board of Directors approved allocation of 3,327,465 options to Bank officers. The weighted average fair value of stock options granted in 2021 was NIS 12.48. The weighted average share price upon exercise of options into shares during 2023 was NIS 137.44.

(4) On May 24, 2022, the Bank's Board of Directors approved allocation of 3,385,298 options to Bank officers. The weighted average fair value of stock options granted in 2022 was NIS 13.69.

(5) On May 3, 2023, the Bank's Board of Directors approved allocation of 3,408,043 options to Bank officers. The weighted average fair value of stock options granted in 2023 was NIS 16.52.

For more information about previous stock option plans, see Note 23 to the 2022 financial statements.

Note 24 – Share Capital and Shareholders' Equity

A. Details on share[1] capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31		December 31	
	2023	2022	2023	2022
Ordinary shares, NIS 0.1 par value[2]	400,000,000	400,000,000	258,127,194	257,175,661

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Dividends

– Restrictions on dividends distribution

As directed by the Supervisor of Banks, banking corporations are required to avoid dividends distributions if they may fail to meet the capital targets specified, inter alia, in Proper Conduct of Banking Business Directive 331 and in the Supervisor of Banks' letters "Capital policies for interim periods" and "Basel III framework – minimum core capital ratios". For further details, see Note 25.

– Policies for dividends distribution

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

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

Below is information about dividend distributions by the Bank since 2021 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)	(In %)	(NIS in millions)
August 16, 2021	August 31, 2021	188.99	[1]0.30	483.0
November 15, 2021	November 30, 2021	293.47	[2]0.30	752.7
Total dividend distributions in 2021[3]				**1,235.7**
February 28, 2022	March 15, 2022	105.89	0.40	271.6
August 15, 2022	August 30, 2022	122.91	0.30	315.9
November 28, 2022	December 13, 2022	137.43	0.30	353.4
Total dividend distributions in 2022[4]				**940.9**
March 13, 2023	March 28, 2023	126.79	0.30	326.1
May 16, 2023	June 1, 2023	159.35	0.30	410.1
August 14, 2023	August 29, 2023	190.10	0.35	489.3
November 27, 2023	December 12, 2023	63.86	0.15	164.7
Total dividend distributions in 2023[5]				**1,390.2**

(1) Dividends rate as percentage of net profit in 2020.
(2) Dividends rate as percentage of net profit in the first nine months of 2021.
(3) Total dividends distributed with respect to 2021 earnings – NIS 1,024.3 million.
(4) Total dividends distributed with respect to 2022 earnings – NIS 995.4 million.
(5) Total dividends distributed with respect to 2023 earnings – NIS 1,064.1 million.

- Dividends declared with respect to earnings in the fourth quarter of 2023

For more information about dividends distribution with respect to earnings in the fourth quarter of 2023, see Note 36 "Events after the balance sheet date".

Note 25 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of December 31	
	2023	**2022**
1. Consolidated data		
a. Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	28,434	25,072
Tier I capital(1)	28,434	25,072
Tier II capital	8,366	8,015
Total capital	**36,800**	**33,087**
b. Weighted risk asset balances		
Credit risk	252,842	234,383
Market risks	1,957	1,301
Operational Risk	20,641	16,567
Total weighted risk asset balances	**275,440**	**252,251**
	In %	
c. Ratio of capital to risk elements		
Ratio of Tier I equity to risk components(1)	10.32	9.94
Ratio of Tier I capital to risk components	10.32	9.94
Ratio of total capital to risk components	13.36	13.12
Minimum Tier I equity ratio required by Supervisor of Banks(2)	9.60	9.60
Total minimum capital ratio required by the Supervisor of Banks(2)	12.50	12.50
.		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I equity to risk components	11.90	10.51
Ratio of Tier I capital to risk components	11.90	10.51
Ratio of total capital to risk components	14.17	13.45
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50

(1) These data include supervisory adjustments with respect to the following: Effect of initial application of accounting principles with regard to expected credit losses and with respect to initial application of the Bank of Israel circular regarding weighting of loans subject to increased risk for purchase of land. For more information see section A.3 and A.4.

(2) An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the dates of financial statements, except for residential mortgages, which are subject to relief provided in the interim directive for addressing the Corona Virus crisis.

Note 25 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

A. Capital adequacy – continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31	
	2023	**2022**
3. Capital components for calculating the capital ratio (on consolidated data)		
a. Tier I equity		
Equity	28,703	24,868
Differences between shareholders' equity and Tier I equity	(673)	(543)
Tier I equity before regulatory adjustments and deductions	**28,030**	**24,325**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	(127)	(147)
Deferred tax assets	-	-
Supervisory adjustments and other deductions[1]	354	612
Total supervisory adjustments and deductions, before adjustments with respect to streamlining programs and before adjustments with respect to expected credit losses – Tier I equity	**227**	**465**
Total adjustments with respect to streamlining programs	-	15
Total adjustments for expected credit losses	177	267
Total Tier I equity after supervisory adjustments and deductions	**28,434**	**25,072**
b. Tier II capital		
Tier II capital: Instruments, before deductions	5,205	5,437
Tier II capital: Provisions for credit losses, before deductions	3,299	2,785
Total Tier II capital, before deductions	**8,504**	**8,222**
Deductions:		
Deductions – Total adjustments for expected credit losses	(138)	(207)
Total Tier II capital	8,366	8,015
Total capital	**36,800**	**33,087**

4. Effect of adjustments with respect to expected credit losses and loans subject to increased risk for land purchase on Tier I capital ratio:

	As of December 31	
	2023	**2022**
		In %
Ratio of capital to risk components		
Ratio of Tier I equity to risk components, before effect of adjustments	10.25	9.78
Effect of adjustments for expected credit losses	0.07	0.12
Effect of adjustments with respect to loans subject to increased risk for land purchase	-	0.04
Ratio of Tier I equity to risk components	10.32	9.94

(1) Includes deferred credit balance from acquisition of Union Bank.

Note 25 – Capital adequacy, liquidity and leverage – continued

Reported amounts (NIS in millions)

B. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31	
	2023	**2022**
1. Consolidated data		
Tier I capital	28,434	25,072
Total exposure	487,483	463,010
		In %
Leverage ratio	5.83	5.42
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	6.68	6.08
Minimum leverage ratio required by the Supervisor of Banks	4.50	4.50

C. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of December 31	
	2023	**2022**
		In %
1. Consolidated data		
Liquidity coverage ratio(1)	131	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
2. Bank data		
Liquidity coverage ratio(1)	131	118
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Liquidity coverage ratio(1)	391	209
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100

(1) In terms of simple average of daily observations during the reported quarter.

D. Minimum net stable funding ratio required by directives of the Supervisor of Banks

As from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive 222 concerning "Net stable funding ratio (NSFR)", which adopts the Basel Committee recommendation with regard to net stable funding ratio in the banking system in Israel. In conformity with this directive, the objective of the net stable funding ratio is to improve stability of the liquidity risk profile of banking corporations over the long term, by requiring banking corporations to maintain a stable funding profile in conformity with the composition of on-balance sheet assets and off-balance sheet operations. The net stable funding ratio consists of two components: available stable funding items (numerator) and required stable funding items (denominator). "Available stable funding" is defined as the part of capital and liabilities that may be relied upon over the time horizon taken into account in the net stable funding ratio, of one year. The required stable funding amount for a given corporation is based on the liquidity attributes and time to maturity of various assets held by the corporation, as well as of off-balance sheet exposures.

Pursuant to the directive, the minimum net stable funding ratio required is 100%.

Note 25 – Capital adequacy, liquidity and leverage – continued

The net stable funding ratio for significant banking subsidiaries in Israel is calculated in conformity with Proper Conduct of Banking Business Directive 222 "Net stable funding ratio". Net stable funding ratio in significant overseas banking corporations is presented and calculated in conformity with relevant directives in each jurisdiction, if specified.

	As of December 31	
	2023	2022
		In %
(1) On consolidated data		
Net stable funding ratio	114	115
The minimum net stable funding ratio required by the Supervisor of Banks	100	100
(2) Significant subsidiaries		
Bank Yahav		
Net stable funding ratio	170	156
The minimum net stable funding ratio required by the Supervisor of Banks	100	100

Factors which may materially affect the net stable funding ratio

Net stable funding ratio on consolidated basis as of December 31, 2023 was 114%. Volatility of this ratio throughout the quarter was low; the main factors affecting the net stable funding ratio are: composition of Bank sources and uses by financing term, financing type and counter party. On the sources side – long-term liabilities are more stable than short-term liabilities, and funding from retail customers and small businesses is more stable than wholesale funding with the same maturity. When long-term sources grow shorter on a large scale (such as with subordinated notes) to a term shorter than one year, this factor affects the resulting ratio; however, because this is a funding source which typically has scattered maturities, the impact on the resulting ratio is not material. On the uses side – asset type, asset term and quality and liquidity value determine the required stable funding amount.

E. Basel III

As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:
- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to non-accruing debts
- Capital allocation with respect to CVA risk

F. Capital adequacy target

As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. Calculation of total capital and total risk components is set forth in the directives.
An additional capital requirement was added to the Tier I equity ratio at 1% of the residential mortgage balance as of the dates of financial statements, except for residential mortgages, which are subject to relief provided in the interim directive for addressing the Corona Virus crisis.
Consequently, the Bank's current required minimum ratio of Tier I equity ratio and minimum total capital ratio as of the report date are 9.60% and 12.50%, respectively (to which appropriate safety margins would be added).

G. Streamlining plan

In a letter dated January 12, 2016, regarding operational streamlining of the banking system in Israel, and later on in a letter dated June 13, 2017, the Supervisor of Banks granted capital relief with regard to streamlining programs in labor expenses, cost of real estate and maintenance of headquarters and management units. In this relief, the effect of streamlining programs on supervisory capital was attributed in a straight line over five years, for calculation of capital adequacy ratios.
On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, approved by the Supervisor of Banks, including a voluntary retirement program and reduction of real estate areas. On December 31, 2018, the Union Bank Board of Directors approved a streamlining program, which was also approved by the Supervisor of Banks.
The relief with respect to the streamlining programs on Tier I capital ratio expired on December 31, 2023.

Note 25 – Capital adequacy, liquidity and leverage – continued

H. Issue and redemption of subordinated notes with loss-absorption provisions

In August 2023, further to the Supervisor of Banks' approval, Bank Yahav conducted early redemption of contingent subordinated notes (CoCo) (recognized by the Supervisor of Banks as Tier II capital of the Bank), for NIS 0.2 billion.
In October 2023, further to the Supervisor of Banks' approval, Tefahot Issuance conducted early redemption of contingent subordinated notes (CoCo) (Series 48, recognized by the Supervisor of Banks as Tier II capital of the Bank), for NIS 0.8 billion.
In December 2023, Tefahot Issuance issued a new series of contingent subordinated obligatory notes (CoCo) (Series 69), CPI-linked, amounting to NIS 0.6 billion par value, for NIS 0.6 billion.

I. Effect of application of accounting principles with regard to expected credit losses on supervisory capital

As from January 1, 2022, the Bank applies the new directives with regard to expected credit losses (CECL) and charges the cumulative effect to retained earnings upon initial application. According to the Supervisor of Banks' circular, if, due to initial application of these rules, the banking corporation's Tier I equity should decrease, then the banking corporation may partially include in Tier I equity (i.e. add back to Tier I equity) the decrease in Tier I equity recorded upon initial application, over three years (hereinafter: "transition period").
The effect of this relief on the Tier I capital ratio was 0.07% as of December 31, 2023.
For more information about the effect of initial application, see Note 1 to the 2022 financial statements.

J. Circular regarding update to Proper Conduct of Banking Business Directive 203 "Capital measurement and adequacy" – Standard approach – credit risk

On May 22, 2022, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 203 ("Capital measurement and adequacy – Standard approach – Credit risk"), designed to address exposure to the construction and real estate sector.
According to the circular, loans designated for purchase of land for development or construction, with an LTV higher than 80% of the purchased property value, shall carry an increased risk weighting of 150%, except for loans for purchase of agricultural land with no planning horizon or intention to apply for re-zoning, and except for loans designated for purchase of land for own use by the borrower, who is not classified under the Construction and Real Estate sector, based on sector classification in Supervisory Reporting Directive 831 "Total credit risk by economic sector".
The directive applies as from June 30, 2022, but the Bank may apportion the impact of change in risk weighting on the capital adequacy ratio with respect to the current loan portfolio as of June 30, 2022 in equal quarterly rates, from September 30, 2022 through June 30, 2023.
On October 31, 2023, a circular was issued regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Iron Swords war (Interim Directive)", which included relief for Proper Conduct of Banking Business Directive 203 which clarified that increase in LTV above 80% for loans designated for land purchase for development or construction, due to interest accrued through December 31, 2023 due to any grace period granted after October 7, 2023 would not be accounted for in LTV calculation.

K. 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.
In the Supervisor of Banks' circular dated December 20, 2023, the effect of this relief was extended through December 31, 2025. A banking corporation applying this relief at the time would be required to resume the required leverage ratio prior to the interim directive within two quarters, such that upon expiration of the interim directive, the banking corporation would be subject to a minimum leverage ratio based on the actual leverage ratio or the minimum ratio applicable to the banking corporation prior to the interim directive, whichever is lower.

L. For more information about the Bank's policy on dividend distribution, see Note 24.B "Share capital and shareholders' equity".

Note 26 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection[2]

	As of December 31	
	2023	**2022**
Israeli currency – linked to the CPI	2,741	3,134
Israeli currency – non-linked	4,452	4,715
Foreign currency	53	54
Total	**7,246**	**7,903**

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	As of December 31							
							2023	**2022**
	Up to 1 year	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 10 years**	**Over 10 years to 20 years**	**Over 20 years**	**Total**	**Total**
In the CPI-linked sector[3]								
Cash flows of futures contracts	12	16	11	22	16	2	79	90
Expected future cash flows net of management's estimate of early repayments	12	14	12	21	15	1	75	83
Discounted expected future flows net of management's estimate of early repayments[4]	12	15	11	15	8	1	62	73
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	-	1	1	1	1	-	4	3
Expected future cash flows net of management's estimate of early repayments	-	1	-	1	-	-	2	3
Discounted expected future flows net of management's estimate of early repayments[4]	-	1	-	1	-	-	2	2

3. Information on loans extended by mortgage banks during the year

	2023	**2022**
Loans out of deposits according to extent of collection	123	198
Standing loans and grants	111	89

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 1,095 million (2022 – NIS 835 million) are not included in this table.

(3) Includes foreign currency sector.

(4) In the CPI- and foreign currency-linked segments, capitalized at a rate of 2.55%; in the non-linked segment, capitalized at a rate of 5.82%. (2022: at 2.13%, 4.98%, respectively).

Note 26 – Contingent Liabilities and Special Commitments – continued

B. Other liabilities and special commitments

	2023	2022
1. Computerization and software service contracts	444	313
2. Acquisition and renovation of buildings[1]	72	221

(1) Including a commitment to construct another building in Lod, to which all of the Bank's headquarters units would be gradually relocated.

4. Credit sales operations

	2023	2022	2021
Carrying amount of credit sold	25	1,903	234
Total consideration	25	1,943	234
Service obligation – expense with respect to operational services	-	32	-
Total net gain (loss) with respect to credit sold	-	8	-

C. Contingent liabilities and other commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 1,877 million as of December 31, 2023. The share of Bank and subsidiaries in the fund as of December 31, 2023 is estimated at NIS 219 million (as of December 31, 2022 – NIS 189 million).

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 50% of their share in the risk fund. These funds are deposited by stock exchange clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a wholly-owned subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 465 million (as of December 31, 2022 – NIS 389 million).

   Likewise, the Bank has undertaken to deposit its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 633 million as of December 31, 2022. The share of the Bank and subsidiaries in the fund as of December 31, 2023 is estimated at NIS 235 million (as of December 31, 2022: NIS 193 million).

   In accordance with a decision by the MAOF Clearinghouse Board of Directors, each member of the clearinghouse deposits in cash at least 50% of their share in the risk fund. These funds are deposited by MAOF Clearinghouse members as collateral into an account with the Bank of Israel.

   See Note 27.A to the financial statements with regard to liens that the Bank has undertaken to furnish for this liability.

3) Prior to completion of the merger with and into the Bank on December 29, 2022, Union Bank had a material long-standing contract with Bank Leumi LeIsrael Ltd. (hereinafter: "Leumi") pursuant to an agreement signed on September 2, 2021 and extended from time to time, with regard to provision of IT and operating services for a large part of the core banking systems by outsourcing, which expired on December 31, 2016. As from said date, a three-year period started, classified as "contract termination period", which was extended on March 29, 2018 as suggested by Leumi, through June 30, 2021. Further to approval by the Union Bank Board of Directors dated May 12, 2020, Union Bank and Leumi signed an addendum to the agreement whereby, after fulfillment of suspensive conditions, the agreement term was extended through December 31, 2022. The consideration paid by Union Bank for services rendered amounted to NIS 125 million for 2020 and NIS 135 million for 2021-2022. Another contract was signed for the first quarter of 2023, for NIS 23 million.

Note 26 – Contingent Liabilities and Special Commitments – continued

4) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to settle securities and to honor any monetary charge arising from transactions executed by that company.

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

   In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office with the Bank all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not directors in conjunction with their action as directors on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

   On October 28, 2004, the General Meeting of the Bank resolved to add to the list of events for which the Bank granted a commitment to indemnify to Bank officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action, agreement or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

   On May 14, 2006, the General Meeting of the Bank resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as a director in a company in which the Bank owns any shares, and to those serving, from time to time at the Bank's request, as a director in a company controlled by the Bank.

   On November 9, 2011, the General Assembly of the Bank resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

   The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Law (Legislative Amendments), 2011.

Note 26 – Contingent Liabilities and Special Commitments – continued

The General Assembly also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholder equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses, including attorneys fees – all as specified in the in the Financial Services Supervision Law (Insurance), 1981 and in the Financial Services Supervision Law (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Law, 1988.

The General Assembly of the Bank further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer to whom the exemption was granted) has a personal interest.

The General Assembly of the Bank also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

On August 30, 2018, the General Meeting approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future.

On October 15, 2020, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future. The amendment stipulates that the commitment to indemnify shall also apply to expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, as stated in the aforementioned amendment to the Bylaws. The amendment further stipulates that the letter of commitment and anything related to it are subject exclusively to laws of the State of Israel and the Tel Aviv Yafo District Court shall have sole jurisdiction over any such matter. The list of events in the addendum to the letter of commitment was also revised. Pursuant to a resolution by the Audit Committee dated August 17, 2020, the resolution to approve the amended letter of commitment, with regard to its applicability to parties other than controlling shareholders and relatives thereof, would be brought for re-approval as required by law within 9 years after October 15, 2020.

On September 5, 2023, the General Meeting of Bank shareholders approved an amendment of the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future.

Note 26 – Contingent Liabilities and Special Commitments – continued

The amendment stipulates, *inter alia*, that the commitment to indemnification would also apply in these cases: (1) Financial liability imposed due to payment to the injured party due to breach, as set forth in Section 52 (54)(a)(1)(a) of the Securities Law, pursuant to the Financial Information Services Law and pursuant to provisions of the Payment Services and Payment Initiation Regulation Law. (2) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter E (titled "Monetary sanction"), or a proceeding pursuant to Chapter F (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Financial Information Services Law (or any other proceeding pursuant to this law), as amended from time to time. (3) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter G (titled "Monetary sanction"), or a proceeding pursuant to Chapter H (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Payment Services and Payment Initiation Regulation Law (or any other proceeding pursuant to this law), as amended from time to time. The list of events in the addendum to the letter of commitment was also revised.

Pursuant to a resolution by the Audit Committee dated July 17, 2023 and to approval by the General Meeting of Bank shareholders, the resolution to approve the amended letter of commitment, with regard to its applicability to controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than three years after approval by the General Meeting of Bank shareholders (i.e. after September 5, 2023), as required by law. The resolution to approve the amended letter of commitment, with regard to its applicability to all other eligible parties other than controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than 9 years after approval by the General Meeting of Bank shareholders (i.e. after September 5, 2023).

For more information see Immediate Report dated July 27, 2023 (reference 2023-01-086163), Immediate Report dated September 5, 2023 (reference 2023-01-103332) and Immediate Report dated September 5, 2023 (reference 2023-01-103356).

6) In February 2021, the General Meeting of shareholders of Union Bank Le-Israel Ltd. (hereinafter: "Union Bank"), after approval by Union Bank's Remuneration Committee and Board of Directors, approved an amendment to the letter of commitment to indemnify (hereinafter: "Indemnification Letter") provided by Union Bank to Board members and to other officers, as specified in the Indemnification Letter, who are or were in office at Union Bank and at Union Bank subsidiaries (hereinafter jointly in this paragraph: "Officers") which, through said date, as resolved by the General Meeting of Union Bank shareholders in 2018, was capped at 25% of Union Bank shareholders' equity.

   In this regard, Union Bank undertook, subject to terms and conditions set forth in the Indemnification Letter and to provisions of the Companies Law, to indemnify the Officers with respect to any monetary indebtedness that would be imposed on any of the Officers and with respect to reasonable litigation expenses, provided that the maximum indemnification payable by Union Bank to Officers of Union Bank and of Union Bank subsidiaries, would not exceed NIS 633 million (25% of Union Bank's shareholders' equity, based on financial statements of Union Bank as of June 30, 2020, prior to closing of the acquisition of Union Bank by the Bank).

   Under terms and conditions of the merger of Union Bank into and with the Bank, the Bank assumed this commitment.

7) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

   The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

   The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

   Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

Note 26 – Contingent Liabilities and Special Commitments – continued

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of bonds and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

   The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

   Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholder equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

10) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

    Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

    Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

    Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

Note 26 – Contingent Liabilities and Special Commitments – continued

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholder equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount. Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

11) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the opinion of the management of the Bank, based on the opinion of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to shareholders of the Bank:

A) In May 2016, the Bank received a claim and motion for approval of class action status, alleging unlawful over-charging of commissions to customers eligible to be classified as a small business, in breach of the Bank's duties in its relations with customers.

The plaintiff claims that the Bank has not disclosed to customers who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at their expense.

The plaintiff estimates the damage at NIS 220 million.

The hearing of this motion is concurrently with 5 motions filed against 5 other banks. Evidentiary hearings in this case were held in March-April 2023. As recommended by the Court, the parties are in mediation proceeding.

B) In December 2017, the Bank received a claim and motion for approval of class action status filed, amounting to NIS 124 million. The claim involves setting of the interest rate on residential mortgages bearing bond-based adjustable interest. The plaintiffs allege that the Bank issues an approval in principle to the customer, listing the bond base as the only mechanism for interest calculation in the adjustable interest track – bonds for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It was further alleged that the condition specified by the Bank in the agreement for activation of the emergency defensive provision is unfair and provides the Bank with an unreasonable advantage over the customers.

On March 8, 2023, a verdict was handed down, confirming the settlement agreement reached by the parties. On December 3, 2023, a resolution was issued confirming the date and execution of the settlement agreement.

C) In September 2018, the Bank received a claim and motion for approval of class action status amounting to NIS 180 million (estimated).

Note 26 – Contingent Liabilities and Special Commitments – continued

The motion alleges over-charging of commission upon early repayment of residential mortgages consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, allegedly in contravention of provisions of the Banking Ordinance (Early repayment of residential mortgage), 2002.

The hearing of this case is consolidated with similar motions filed against other banks on the same matter. The parties have entered into a mediation proceeding. On January 24, 2024, the Court resolution was handed down, whereby given the notice by the plaintiffs indicating they wish to re-consider their steps, then should the parties fail to reach an agreement that may be submitted to the Court, the Court would consider seeking the regulator's position prior to any evidentiary hearings in this case. The parties are to inform the Court of their position with regard to the settlement agreement. A pre-trial hearing is scheduled for March 11, 2024.

D) In December 2018, the Bank received a claim and motion for class action status amounting to NIS 280 million, filed against the Bank, other banks and multiple insurance companies, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period. The plaintiffs set the total damage, jointly and severally, at NIS 280 million. On February 19, 2023, the motion to withdraw by filed the plaintiff was approved.

E) In May 2020, the Bank received a motion for approval of class action status, of unspecified amount, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank customers, allegedly in breach of provisions of the Privacy Protection Law, 1981 and other statutes, without providing required disclosure to Bank customers and without obtaining their consent. The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its customers when transacting on Bank web sites and apps, in order to conduct advertising campaigns. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its customers to third parties constitute unfair conditions in a uniform contract.

Hearing of this case is consolidated with 3 other claims filed in the same matter against 3 other banks. On September 27, 2023, the Court ruled on various motions filed by the banks with respect to plaintiffs' responses to the banks' responses. In conformity with the Court resolution, on January 22, 2024 the Supervisor of Banks files their position, announcing that at this stage, they were unable to express an opinion because the issues in this proceeding give rise to questions outside of banking laws. A pre-trial hearing in this case is scheduled for May 9, 2024.

F) In April 2021, the Bank received a motion for class action status filed against the Bank and 14 other defendants (other banks and financial institutions, hereinafter: "the defendants"), alleging transfer of private information to third parties while browsing the "Personal Zone" on websites and apps operated by the defendants, allegedly in violation of privacy and allegedly in breach of provisions of the Privacy Protection Law, Banking Rules and multiple other obligations imposed on the defendants. The plaintiffs allege that the Personal Zone includes private, confidential information which is provided to third parties without express consent of the customers – and in particular to Google and its advertising service. This is done, *inter alia*, in conjunction with the Bank's use of Google's Google Analytics service. The plaintiff did not state the class damage amount. However, they estimate that monetary and non-monetary damage incurred by each class member amounts to NIS 2,000.

The parties have entered into a mediation proceeding which proved unsuccessful. Evidentiary hearings took place in February 2024. Evidentiary hearings for cross-examination of experts by the parties are scheduled for April 2024.

G) In February 2022, the Bank received a motion for class action status, filed against the Bank and 9 other banks and against 2 private companies that operate, independently or by franchise, non-bank ATMs ("the motion"). The motion concerns cash withdrawals from customeraccounts at the defendant banks, made through non-banking ATMs operated by private companies.

The motion alleges, *inter alia*, that banks charge their customers an additional commission without full disclosure and allegedly unlawfully, for cash withdrawals made through private / non-banking ATMs, in addition to the commission paid to the private companies that operate these ATMs.

The damage to the class, according to the motion, was set at NIS 458 million in total against all defendants, with the plaintiff allowing the Court discretion in allocating liability among the defendants.

Note 26 – Contingent Liabilities and Special Commitments – continued

As ruled by the Court, the Supervisor of Banks filed their position on this matter, whereby *inter alia* an issuer bank may charge a direct channel fee for withdrawal from a non-bank ATM, and in this regard, general disclosure on the ATM screen that a further fee would be charged by the Bank is sufficient. On June 14, 2023, the plaintiff filed a motion seeking permission to file its comments on the Supervisor of Banks' position. A ruling on this motion is still pending.

H) In April 2022, the Bank received a motion for approval of class action status of no stated amount, concerning double charging of commission, allegedly unlawfully, in an exchange transaction of two foreign currencies, and absence of proper disclosure about these charges in the conversion differences.

As for the charging of a transaction commission, the plaintiff alleged that for conversion between two foreign currencies the Bank charges two transaction commissions (a sale transaction - conversion from one currency to NIS, and a buy transaction - conversion from NIS to the other currency); As for the charging of conversion differences, the plaintiff alleged that the Bank does not disclose to the customer in advance, neither in the price list nor in the booklet "General terms and conditions for account management", the exact charging of conversion differences that would apply to the transaction.

On December 2, 2022, a verdict was handed down, rejecting out of hand the motion for approval of class action status. On January 18, 2023, the plaintiff appealed this verdict to the Supreme Court. A hearing of the appeal by the Supreme Court was re-scheduled for June 19, 2024.

I) In September 2022, the Bank received a motion for approval of class action status, with no estimated amount. The motion concerns allegations regarding the Bank website, which the plaintiff alleges is in breach of provisions of Section 5(c) of the Banking Law (Customer service), 1981. Allegedly, the Bank presents on its marketing website diverse loans for different purposes, and encourages Bank customers to take out loans, without displaying the warning allegedly mandated by Section 5(c) of the Banking Law, whereby "Failure to make loan repayments may result in arrears interest charges and in debt collection proceedings".

On March 26, 2023, the Court handed down a verdict approving the parties motion for the plaintiff to withdraw the motion for approval of class action status.

J) In November 2022, the Bank received a motion for approval of class action lawsuit, of unspecified amount, concerning revision of interest rates in conformity with agreements for residential mortgages in the variable interest track based on bonds as an anchor (yield of Government bonds), alleging that this creates an unfair advantage for the Bank at the expense of borrowers, and that the condition stipulated in such agreements, whereby the change in anchor would only apply "on condition that the sum of these components shall not be less than 0%" constitutes, allegedly, a discriminatory condition in a uniform contract, as defined in Section 2 of the Uniform Contract Law, 1982.

The Bank filed its response to the motion on February 18, 2024. A preliminary hearing of this case is scheduled for March 14, 2024.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 76 million.

12) Motions for class action status are pending against the Bank and its subsidiaries, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, hence no provision was made for these.

A) In August 2023, the Bank received a claim and motion for approval of class action status, of unspecified amount, filed against the Bank and other banks. The motion concerns the requirement to provide a building insurance policy incidental to a mortgage, to be pledged in favor of the Bank, even when the property value net of the relevant land value exceeds the requested loan amount or the outstanding loan balance, allegedly in contravention of provisions of Proper Conduct of Banking Business Directive 451, whereby the Bank may not require the borrower to obtain such insurance. It was further alleged that the defendant banks do not inform the borrowers, during the loan period, of the option available to them not to insure the property under such circumstances, with respect to the outstanding loan balance.

In conformity with approval of a litigation agreement reached by the parties, the deadline for submitting the Bank's response to the motion for approval was postponed to March 14, 2024, and the pre-trial hearing was postponed to July 3, 2024.

Note 26 – Contingent Liabilities and Special Commitments – continued

B) In August 2023, the Bank received a claim and motion for class action status, of unspecified amount. The motion concerns terms of interest and deposit types used as temporary collateral for mortgage transition from one land property to an alternative land property.
Allegedly, the Bank makes its consent to the customer request to transition the mortgage contingent on receiving liquid collateral, and in case of a deposit as such collateral, the investment options offered to the customer for such deposit are inferior by comparison to other investment options, and in particular – by comparison to other deposits offered to all Bank customers, and such action by the Bank results in excess profit for the Bank. It is further alleged that during the term of such deposit, the customer is required to maintain a valid life insurance policy. This is allegedly in contravention of the mortgage agreement, and in breach of multiple duties applicable to the Bank pursuant to statutes.
The Bank is to file its response to the motion by March 31, 2024.

C) In July 2023, the Bank received a claim and motion for approval of class action status, filed against the Bank and other banks. The claim alleges misleading behavior and failure to provide disclosure, when making a deposit online or in the app, of the interest rate offered and paid to other bank customers for the same deposits, and of the option to obtain better interest. This involves allegedly unlawful action tantamount to misleading behavior, exploitative and lacking good faith, as well as unlawful enrichment. The total damage claimed for all banks amounts to NIS 984 million.
The Bank is to file its response to the motion by May 3, 2024. A pre-trial hearing is scheduled for September 15, 2024.

D) In June 2023, the Bank received a motion for class action status brought against the Bank and other banks, claiming damages in excess of NIS 1 billion, for non-payment of interest for credit balances in current accounts. The motion alleges that the Bank does not pay interest for credit balances in current accounts held with the Bank, by way of credit interest or by automated deposit of credit balances in the account to an interest-bearing deposit, and that the Bank fails to inform customers of the appropriate options in such circumstances, in breach of various statutory provisions and with unlawful enrichment.
The Bank is to file its response to the motion by April 4, 2024. A pre-trial hearing is scheduled for September 11, 2024.

E) In June 2023, the Bank received a claim and motion for approval of class action status, filed against the Bank and other banks, alleging over-charging of debit interest linked to the Prime lending rate. The claim alleges that the Bank increases the Prime lending rate used to determine the debit interest rate for debit balances in current accounts and in loans, whenever the Bank of Israel changes its interest rate, and by exactly the same change, without exercising judgment and without paying due consideration to changes to the cost of credit sources, thereby increasing the Bank's earnings by allegedly using, other than in good faith, unfair sections of uniform banking contracts, as well as unlawful enrichment.
The total estimated damage for all defendants amounts to NIS 5.8 billion.
The Bank is to file its response to the motion by April 11, 2024. A pre-trial hearing of this case is scheduled for September 8, 2024.

F) In May 2023, the Bank received a claim and motion for class action status, of unspecified amount, with respect to setting the interest rate in the fixed interest track of residential mortgages, carried out in parts. The motion alleges that the Bank should set an annual interest rate based on the basic interest rate plus the "additional rate" which, according to the plaintiff, should be fixed; However, allegedly the Bank calculates the additional interest based on the interest rate upon signing the loan agreement, but based on the basic interest on later dates, in contravention of the loan agreement and of provisions of Proper Conduct of Banking Business Directive 421 regarding "Decrease or increase in interest rates".
The Bank filed its response to the motion on February 25, 2024. A preliminary hearing of this case is scheduled for March 14, 2024.

G) In April 2022, the Bank received a motion for approval of class action status, with no estimated amount, alleging unlawful charging of a file opening commission upon loan origination, with this commission being "disguised interest", in breach of the Fair Credit Law, 1993 and in violation of provisions of Regulation 3 of the Non-bank Loan Regulations (Exclusion of credit transaction types from the scope of the law and exclusion of expenses from the scope of "addition"), 2019.

Note 26 – Contingent Liabilities and Special Commitments – continued

Given the verdict, which denied a motion for class action status filed with a similar cause against a non-bank lender, after discussing issues similar to the above motion (including interpretation of Amendment 5 to the Fair Credit Law, 1993 and regulations based there upon, as well as the issue of "hidden interest"), on September 22, 2022 the Court granted a stay of proceedings in this case, pending a ruling by the Supreme Court in an appeal filed by the aforementioned non-bank lender.

13) Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries thereof, as follows:

A) In August 2023, the Bank received a motion filed with the Tel Aviv Yafo District Court by two individual shareholders of the Bank, seeking an order for document disclosure pursuant to Section 198a of the Corporate Law, 1999 – against the Bank, members of the Bank Board of Directors and the CEO & President of the Bank ("defendants" and "motion", respectively), to order the Bank and/or any of the other defendants to disclose to the plaintiffs various documents with regard to obtaining a mortgage. The motion alleges that the plaintiffs have *prima faciae* evidence, whereby the Bank allegedly assists its customers from the Jewish Orthodox segment to subvert the Bank of Israel directives and mandatory reporting pursuant to the AML Law, and that this indicates a failure in conduct of the Bank, its officers and employees, which justified consideration of filing a derivative lawsuit against Bank officers and employees regarding damage incurred by the Bank due to their deeds and omissions.
On September 21, 2023, an agreed motion was filed for removal of the officers from the motion, due to the nature of the motion whereby all sought remedies are directed at the Bank. On September 24, 2023, the Court ruled and accepted this motion for removal. The Bank filed their position to the motion on March 6, 2024.

B) In September 2020, the Bank received a motion for approval of a derivative lawsuit filed by a heir of a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company. The claimed damage for Bank Yahav is over NIS 1 billion.
The parties filed a motion for agreed withdrawal with the Court, and on July 30, 2023, the Court handed down its ruling denying the motion.

C) In December 2016, a motion pursuant to Section 198a of the Corporate Law, 1999, was filed with the Tel Aviv District Court for discovery and review of Union Bank documents ("Union Bank"), whereby the Court was asked to instruct Union Bank to divulge documents with regard to credit extended by Union Bank to a major borrower (who is in insolvency proceedings) and to others whose debt is personally guaranteed by the borrower ("the Motion for Discovery"). On August 6, 2017 the Court approved a litigation agreement whereby proceedings in this case would be delayed, so as to allow the independent claim committee, which the Union Bank Board of Directors resolved to establish, to discuss this matter and for the Board of Directors to discuss the committee's recommendations. After the Committee has concluded its work and after the Union Bank Board of Directors discussed and adopted its recommendations, the parties conducted a mediation proceeding which was unsuccessful. Therefore, on September 25, 2019, the plaintiff filed a motion for approval of a derivative lawsuit (hereinafter: "the motion") against 20 individual defendants who, allegedly, serve or have served as Board members of Union Bank. The motion concerns, allegedly, loans extended to the major borrower in 2004-2008, with no collateral or with collateral that only partially covers his debt. It further alleged that Union Bank and officers thereof took no action to recover Union Bank's money. The plaintiff alleged that the defendants caused Union Bank to incur damage, by their negligence, amounting to NIS 125 million, taking into account the receipts to be collected in the insolvency proceedings of the major borrower.
The parties negotiated with attorneys of the insurers in the Board member and officer liability insurance policy; On April 14, 2022, the settlement agreement was submitted for Court approval, other than in agreement with the plaintiff.

Note 26 – Contingent Liabilities and Special Commitments – continued

On July 18, 2022, the Attorney General filed their position, whereby the motion for approval of the settlement agreement should be denied, due to the fact that it was not reached in agreement with the plaintiff. On March 16, 2023, Bank Mizrahi Tefahot, after completion of the Union Bank merger there with and there into on December 29, 2022, filed a motion seeking a ruling on the format for filing the motion for approval of the settlement agreement.

On June 7, 2023, a hearing took place at which the parties and representatives of the Attorney General and of the insurers presented their position, after which the Court suggested that the parties negotiate this matter. Accordingly, the parties were in further negotiations of a settlement agreement after which, on August 17, 2023, an agreed motion was filed for confirmation of the settlement agreement, with the plaintiff also being party to this agreement. As per the Court ruling, on November 6, 2023 the Attorney General filed their position regarding the motion for approval of the settlement agreement, whereby the Attorney General has no objection to approval of the settlement agreement. However, the Attorney General noted in their position statement, that the Court may wish to consider of the settlement agreement per se. On January 2, 2024, a hearing of this case took place where inter alia the only objection filed was discussed. On January 3, 2024, a verdict was handed down confirming the settlement agreement on the motion for approval of a derivative lawsuit.

14) In October 2020, the Bank and Apple signed an agreement, whereby Bank customers with iOS based devices can pay using their Bank-issued credit cards on the Apple Pay app.

    In February 2019, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") to extend the agreement on joint issuing of charge cards to Bank customers. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements.

    In February 2019, the Bank signed with Isracard Ltd. and with Europay (Eurocard) Israel Ltd. an extension to the agreement on joint issuing of charge cards to Bank customers. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements. The Bank also has an agreement with Poalim Express Ltd. of Isracard Group on joint issuing of charge cards to Bank customers.

    In December 2022, the Bank signed with MaxIt Finance Ltd. an agreement on joint issuing of charge cards to Bank customers.

    The agreements with the credit card companies are subject to all regulatory requirements required by statute, if any.

15) A trust company that is a subsidiary of the Bank executes trust translations that include primarily trusteeships for trust funds, for bond holders, for owners of restricted shares and for the maintenance of bank accounts.

16) The Bank has undertaken vis-à-vis the trustees for bonds and subordinated obligatory notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the bonds and subordinated notes.

17) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.

    For more information about syndication transactions, see Note 30D.

D. Guarantees by maturity

The Bank provides a wide range of guarantees and indemnification to its customers, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

Note 26 – Contingent Liabilities and Special Commitments – continued

The following are guarantees issued by the Bank, by maturity date (NIS in millions):

	As of December 31, 2023				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,665	493	110	177	3,445
Guarantees to home buyers	9,827	4,110	515	160	14,612
Guarantees and other commitments	5,252	2,021	596	5,672	13,541
Commitments to issue guarantees	4,240	5,887	2,387	-	12,514
Total guarantees	**21,984**	**12,511**	**3,608**	**6,009**	**44,112**

	As of December 31, 2022				
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,535	797	88	111	3,531
Guarantees to home buyers	11,962	5,433	875	799	19,069
Guarantees and other commitments	5,654	1,854	574	4,799	12,881
Commitments to issue guarantees	2,952	4,787	383	-	8,122
Total guarantees	**23,103**	**12,871**	**1,920**	**5,709**	**43,603**

Note 27 – Liens

On January 1, 2022, the updates to Proper Conduct of Banking Business Directive 336 regarding "Pledging assets of a banking corporation" became effective. These updates result from the increase in scope and variety of activities for which banking corporations are required to pledge assets. The directive includes requirements with regard to management of pledged assets and the risks associated there with. The updated directive transitions from a quantitative directive to a qualitative one, with a requirement for proper management and monitoring of pledging of assets. Accordingly, the Bank has set policy on this matter which governs, *inter alia*, management of these operations subject to corporate governance rules, risk management as well as control and monitoring, with due consideration to the importance of this matter and to materiality of these operations at the banking corporation at Group level.

Below is a summary description of pledged Bank assets as of December 31, 2023.

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government bonds of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2023: NIS 12 million was deposited. (As of December 31, 2022: NIS 101 million).

2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2023, deposits to this account amounted to NIS 238 million (as of December 31, 2022: NIS 100 million).

3) The aforementioned account in section 1 above was pledged by a first-ranked lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearinghouse.

Furthermore, stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government bonds of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of bonds deposited as of December 31, 2023 is NIS 253 million (as of December 31, 2022: NIS 176 million).

2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2023, deposits to this account amounted to NIS 92 million (as of December 31, 2022: NIS 223 million).

3) The aforementioned account in section 1 above is pledged by a floating and fixed lien in favor of the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearinghouse.

Note 27 – Liens – continued

B. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the **RTGS** system against specific liens on Bank bonds in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2023 and as of December 31, 2022, no bonds were deposited in this account.

C The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2023, at USD 15 million (as of December 31, 2022: USD 15 million).

To secure Bank customer activity involving options overseas, the Bank provides as collateral bonds of foreign governments. For these operations, the Bank pledged securities valued, as of December 31, 2023, at USD 14 million (as of December 31, 2022: USD 58 million).

D. The Bank and subsidiaries contract Credit Support Annex (CSA) agreements with counter parties, intended to minimize the mutual credit risks created between parties when trading in derivatives. According to these agreements, the fair value of the parties' rights and obligations are measured periodically, and if either party's exposure exceeds the threshold specified in advance, then that party would make a transfer to the other party so as to limit the exposure until the next measurement date.

As of December 31, 2023, the Bank Group has provided to counter parties deposits amounting to NIS 726 million (December 31, 2022: NIS 934 million).

Under the EMIR regulation, applicable to some counter parties with whom the Bank trades OTC derivatives, the Bank is required to use central settlement for some of its transactions with such counter parties through LCH. As part of the central settlement requirements at LCH, the Bank is required to cap the variation margin and the initial margin using transfers to cap such exposure.

As of December 31, 2023, the Bank Group has provided NIS 223 million for variation margin capping, and for capping of initial margin capping – NIS 388 million (as of December 31, 2022: NIS 1,108 million and NIS 139 million, respectively).

E In accordance with the requirement of the regulatory agencies in the USA, the Bank’s branch pledged securities worth USD 31 million as of the balance sheet date (as of December 31, 2022: USD 31 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives.

F. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2023 and December 31, 2022, the Bank pledged no foreign securities.

G. The Bank has pledged a mortgage portfolio valued at NIS 3.41 billion as well as monetary deposits amounting to NIS 0.78 billion, to secure long-term monetary loans received from the Bank of Israel to finance loans to micro and small businesses. The Bank serves as Trustee on behalf of the Bank of Israel with regard to loan operations and maintaining the loan portfolio sufficiently pledged. Should a particular loan no longer match the criteria prescribed by the Bank of Israel, this loan can no longer serve as collateral for monetary loans extended to the Bank, and therefore should the value of the pledged portfolio drop below the minimum threshold required, the Bank would be required to pledge additional loan portfolios or to provide other collateral.

Note 27 – Liens – continued

H.

	As of December 31	
	2023	**2022**
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	106	315

I. On December 30, 2020, the Bank signed a pledge agreement and a secured bond to secure credit received from time to time from the Bank of Israel, whereby the Bank pledged by a first-ranked lien of unlimited amount and by assignment by way of pledge all assets and rights in specific accounts in the name of the Bank of Israel at the Tel Aviv Stock Exchange clearing house and at Euroclear, as well as all its assets and rights in certain residential mortgages and collateral to secure such loans, which are part of the residential mortgage portfolio originated by the Bank (for more information see Note 27.G.).

J. In conformity with directives of the Supervision Unit over Payment Systems at the Bank of Israel, as from April 2023, operators of controlled payment systems specified for the systems they are responsible for, procedures in case of default, designed to enable the system operator to complete the settlement when due, in case of default by participants in the settlement for said date. The default arrangements would be applied to operations with SHVA (debit card services and ATM switching system) and MASAV. As part of these arrangements, the Bank deposited with the Bank of Israel, as of December 31, 2023, NIS 230 million in the MASAV account, NIS 25 million in the SHVA account (debit card services system) and NIS 0.5 million in the SHVA account (ATM switching system).

Note 28 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

A) Description of derivatives and the risks inherent in such activity:

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivative instruments as fair value hedges or as cash flow hedges. For more information, see Note 1.D.16. to the financial statements.

2) Types and description of activity in financial derivative instruments

The activities in financial derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Fair value hedges:

  The Bank designates certain derivatives as fair value hedges. Change in fair value of derivatives hedging exposure to change in fair value of an asset, liability or firm commitment, is regularly recognized on the statement of profit and loss, as is the change in fair value of the hedged item, which may be attributed to the hedged risk.
- Cash flows hedges:

  The Bank designates certain derivatives as cash flows hedges. The accounting treatment of changes to fair value of derivatives hedging exposure to change in cash flows from an asset, liability or anticipated transaction depends on the effectiveness of hedging relationship.
  - The effective portion of the change in fair value of derivatives used to hedge cash flows is initially recognized under equity (off the statement of profit and loss), as a component of Other Comprehensive Income and then, when the anticipated transaction impacts the statement of profit and loss, it is reclassified to the statement of profit and loss.
  - The non-effective portion of the change in fair value of derivatives thus designated is immediately recognized on the statement of profit and loss.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis

	December 31, 2023			December 31, 2022		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	-	2,600	2,600	594	5,565	6,159
Options written	-	1	1	-	-	-
Options purchased	-	-	-	-	-	-
Swaps[1]	23,093	68,567	91,660	32,082	31,670	63,752
Total[2]	**23,093**	**71,168**	**94,261**	**32,676**	**37,235**	**69,911**
Of which: Hedging derivatives[3]	**3,141**	**-**	**3,141**	**3,033**	**-**	**3,033**
Currency contracts						
Forward contracts[4] and futures contracts[6]	41,630	157,360	198,990	57,098	104,321	161,419
Options written	-	10,818	10,818	-	13,158	13,158
Options purchased	-	10,562	10,562	-	13,187	13,187
Swaps	915	1,435	2,350	909	805	1,714
Total	**42,545**	**180,175**	**222,720**	**58,007**	**131,471**	**189,478**
Of which: Hedging derivatives[3]	**-**	**-**	**-**	**-**	**-**	**-**
Contracts for shares						
Forward contracts and futures contracts	-	35,006	35,006	-	20,789	20,789
Options written	110	9,429	9,539	63	7,446	7,509
Options purchased[5]	-	9,431	9,431	-	7,447	7,447
Swaps	-	640	640	-	3,598	3,598
Total	**110**	**54,506**	**54,616**	**63**	**39,280**	**39,343**
Commodities and other contracts						
Forward contracts and futures contracts	-	120	120	-	258	258
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Total	**-**	**120**	**120**	**-**	**258**	**258**
Credit contracts						
Bank is guarantor	-	-	-	281	-	281
Bank is beneficiary	22	-	22	64	-	64
Total	**22**	**-**	**22**	**345**	**-**	**345**
Total stated amount	**65,770**	**305,969**	**371,739**	**91,091**	**208,244**	**299,335**

(1) Of which: swaps for which the banking corporation pays a fixed interest rate amounting to NIS 55,293 million (as of December 31, 2022: NIS 36,435 million).
(2) Of which: NIS/CPI swaps amounting to NIS 5,361 million (as of December 31, 2022: NIS 6,794 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 3,657 million (as of December 31, 2022: NIS 2,453 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 9,425 million (as of December 31, 2022: NIS 6,433 million).
(6) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

B) Activity on consolidated basis – continued

	December 31, 2023					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	1,277	701	1,978	959	663	1,622
Of which: Hedging derivatives	208	-	208	50	-	50
Currency contracts[(1)]	94	3,694	3,788	13	5,215	5,228
Of which: Hedging derivatives	-	-	-	-	-	-
Contracts for shares	3	526	529	-	512	512
Commodities and other contracts	-	3	3	-	3	3
Credit contracts	-	-	-	2	-	2
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,374**	**4,924**	**6,298**	**974**	**6,393**	**7,367**
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying amount of assets / liabilities with respect to derivative instruments	**1,374**	**4,924**	**6,298**	**974**	**6,393**	**7,367**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	30	1,199	1,229	9	2,320	2,329

	December 31, 2022					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Fair value of derivative instruments, gross						
Interest contracts	1,428	689	2,117	1,331	436	1,767
Of which: Hedging derivatives	217	-	217	56	-	56
Currency contracts[(1)]	94	2,904	2,998	291	2,417	2,708
Of which: Hedging derivatives	-	-	-	-	-	-
Contracts for shares	-	677	677	7	725	732
Commodities and other contracts	-	4	4	-	4	4
Credit contracts	2	-	2	10	-	10
Total assets / liabilities with respect to derivatives, gross[(2)]	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Carrying amount of assets / liabilities with respect to derivative instruments	**1,524**	**4,274**	**5,798**	**1,639**	**3,582**	**5,221**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	63	1,709	1,772	48	956	1,004

(1) Including diversion between the trading portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivative instruments amounting to NIS 16 million (as of December 31, 2022 NIS 9 million). Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 7 million as of December 31, 2022.

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

C) Accounting hedges

1. Fair value hedge[(1)]

	For the year ended December 31	
	2023	2022
	Interest revenues (expenses)	Interest revenues (expenses)
Interest contracts		
Hedged items	-	(241)
Hedging derivatives	3	247

	Balance as of December 31			
	2023		2022	
	Book value	Cumulative fair value adjustments that increased the book value	Book value	Cumulative fair value adjustments that increased the book value
Securities available for sale	2,404	20	1,647	43

2. Cash flows hedges[(2)]

For the year ended December 31			
2023		2022	
Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)
3	(17)	12	(74)

(1) Reflects amounts included in assessment of hedge effectiveness.

(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

D) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

	December 31, 2023						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Institu-tional investors	Others	Total
Carrying amount of assets with respect to derivative instruments	**57**	**2,877**	**419**	**73**	**2,280**	**592**	**6,298**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	-	(2,028)	-	(27)	(1,745)	(376)	(1)(4,176)
Mitigation of credit risk with respect to cash collateral received	-	(439)	-	(45)	(834)	(1)	(1,319)
On-balance sheet credit risk with respect to derivative instruments	**57**	**410**	**419**	**1**	**(299)**	**215**	**803**
Net off-balance sheet credit risk with respect to derivative instruments(2)	91	588	1,472	26	1,811	555	4,543
Total credit risk on derivative instruments	**148**	**998**	**1,891**	**27**	**1,512**	**770**	**5,346**
Carrying amount of liabilities with respect to derivative instruments	**45**	**2,324**	**419**	**41**	**3,958**	**580**	**7,367**
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(2,028)	-	(27)	(1,745)	(376)	(4,176)
Pledged cash collateral	-	(296)	-	(14)	(584)	-	(894)
Net amount of liabilities with respect to derivative instruments	**45**	**-**	**419**	**-**	**1,629**	**204**	**2,297**

	December 31, 2022						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Institu-tional investors	Others	Total
Carrying amount of assets with respect to derivative instruments	**69**	**2,340**	**450**	**-**	**2,278**	**661**	**5,798**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	-	(1,930)	-	-	(470)	(52)	(1)(2,452)
Mitigation of credit risk with respect to cash collateral received	-	(35)	-	-	(567)	(52)	(654)
On-balance sheet credit risk with respect to derivative instruments	**69**	**375**	**450**	**-**	**1,241**	**557**	**2,692**
Net off-balance sheet credit risk with respect to derivative instruments(2)	118	664	726	5	1,669	469	3,651
Total credit risk on derivative instruments	**187**	**1,039**	**1,176**	**5**	**2,910**	**1,026**	**6,343**
Carrying amount of liabilities with respect to derivative instruments	**54**	**3,575**	**450**	**14**	**470**	**658**	**5,221**
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(1,930)	-	-	(470)	(52)	(2,452)
Pledged cash collateral	-	(1,645)	-	(14)	-	-	(1,659)
Net amount of liabilities with respect to derivative instruments	**54**	**-**	**450**	**-**	**-**	**606**	**1,110**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, after mitigation of credit risk, and the on-balance sheet credit risk with respect to derivative instruments of the borrower.

In 2023, the Bank recognized revenues due to decrease in credit losses with respect to derivatives, amounting to NIS 18 million (in 2022 the Bank recognized expenses due to increase in credit losses with respect to derivatives, amounting to NIS 32 million. In 2021, the Bank recognized revenues due to decrease in credit losses, amounting to NIS 1 million).

Note 28 – Derivative instruments and hedging activities – continued

Reported amounts (NIS in millions)

E) Maturity dates – stated amounts: year-end balances – Consolidated

	December 31, 2023				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	605	2,199	2,161	626	5,591
Other	15,295	24,355	32,504	16,516	88,670
Currency contracts	151,088	68,450	3,056	126	222,720
Contracts for shares	53,915	663	38	-	54,616
Commodities and other contracts	67	75	-	-	142
Total	**220,970**	**95,742**	**37,759**	**17,268**	**371,739**

	December 31, 2022				
Total	**174,385**	**79,826**	**29,457**	**15,667**	**299,335**

Note 29 – Operating Segments and Geographic Regions

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for customers.

The financial information on the Report of the Board of Directors and Management is included based on definitions of supervisory segments.

In addition, the financial statements include, in this Note, disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in customerattribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking customers, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million.

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivatives not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in bonds available for sale and in bonds held to maturity, hedging using derivatives, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2023

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses-
Interest revenues from externals	2,044	11,061	5	2,884	961-
Interest expenses from externals	2,863	-	867	1,290	403-
Interest revenues, net from externals	(819)	11,061	(862)	1,594	558-
Interest revenues, net – inter-segment	4,608	(8,351)	1,192	1,064	89-
Total interest revenues, net	**3,789**	**2,710**	**330**	**2,658**	**647-**
Non-interest financing revenues	-	-	-	-	- -
Commissions and other revenues	686	119	18	584	101-
Total non-interest revenues	686	119	18	584	101-
Total revenues	**4,475**	**2,829**	**348**	**3,242**	**748-**
Expenses with respect to credit losses	324	247	-	526	106-
Operating and other expenses to externals	2,344	893	18	1,149	192-
Operating and other expenses – inter-segment	4	-	1	7	(4)-
Total operating and other expenses	**2,348**	**893**	**19**	**1,156**	**188-**
Pre-tax profit	1,803	1,689	329	1,560	454-
Provision for taxes on profit	621	582	113	537	156-
After-tax profit	**1,182**	**1,107**	**216**	**1,023**	**298-**
Share of banking corporation in earnings of associated companies	-	-	-	-	- -
Net profit before attribution to non-controlling interests	1,182	1,107	216	1,023	298-
Net profit attributed to non-controlling interests	(144)	-	-	(15)	- -
Net profit attributable to shareholders of the banking corporation	**1,038**	**1,107**	**216**	**1,008**	**298-**
Average balance of assets	27,009	202,312	120	34,380	12,265-
Of which: Investments in associated companies	-	-	-	-	- -
Average balance of loans to the public	27,009	202,312	120	34,380	12,265-
Balance of loans to the public at end of reported period	27,444	[3]206,562	102	34,947	12,171-
Balance of non-accruing debts and debts in arrears over 90 days	145	2,153	-	895	253-
Balance of other problematic debts	124	-	-	639	347-
Balance of provision for credit losses at end of reported period	676	1,129	1	1,335	300-
Net accounting write-offs in the reported period	(134)	-	-	(129)	(23)-
Average balance of liabilities	129,214	-	26,941	55,604	12,705-
Of which: Average balance of deposits from the public	129,214	-	26,941	55,604	12,705-
Balance of deposits from the public at end of reported period	133,009	-	27,746	56,791	14,270-
Average balance of risk assets[1]	22,128	120,257	47	32,948	14,545-
Balance of risk assets at end of reported period[1]	22,499	123,185	35	32,062	14,435-
Average balance of assets under management[2]	59,946	10,045	4,216	44,826	10,481-
Breakdown of interest revenues, net:					-
Margin from credit granting operations	1,073	2,335	-	1,372	388-
Margin from activities of receiving deposits	2,662	-	330	1,160	210-
Other	54	375	-	126	49-
Total interest revenues, net	**3,789**	**2,710**	**330**	**2,658**	**647-**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 12,349 million.

-	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
-	2,401	63	2,889	22,308	69	1,628	1,697	24,005
-	1,514	3,034	1,525	11,496	51	483	534	12,030
-	887	(2,971)	1,364	10,812	18	1,145	1,163	11,975
-	302	3,175	(1,342)	737	(8)	(729)	(737)	-
-	**1,189**	**204**	**22**	**11,549**	**10**	**416**	**426**	**11,975**
-	-	-	511	511	-	-	-	511
-	242	51	460	2,261	15	18	33	2,294
-	242	51	971	2,772	15	18	33	2,805
-	**1,431**	**255**	**993**	**14,321**	**25**	**434**	**459**	**14,780**
-	154	1	10	1,368	-	95	95	1,463
-	317	173	380	5,466	8	95	103	5,569
-	-	(2)	(6)	-	-	-	-	-
-	**317**	**171**	**374**	**5,466**	**8**	**95**	**103**	**5,569**
-	960	83	609	7,487	17	244	261	7,748
-	331	29	210	2,579	6	84	90	2,669
-	**629**	**54**	**399**	**4,908**	**11**	**160**	**171**	**5,079**
-	-	-	1	1	-	-	-	1
-	629	54	400	4,909	11	160	171	5,080
-	-	-	(11)	(170)	-	-	-	(170)
-	**629**	**54**	**389**	**4,739**	**11**	**160**	**171**	**4,910**
-	33,847	1,104	96,126	407,163	641	26,989	27,630	434,793
-	-	-	200	200	-	-	-	200
-	33,847	1,104	-	311,037	163	7,538	7,701	318,738
-	36,286	2,851	-	320,363	206	8,846	9,052	329,415
-	235	-	-	3,681	-	156	156	3,837
-	1,044	-	-	2,154	-	159	159	2,313
-	494	7	-	3,942	-	127	127	4,069
-	(1)	-	-	(287)	-	-	-	(287)
-	37,000	68,801	65,494	395,759	1,117	10,459	11,576	407,335
-	37,000	68,801	-	330,265	897	9,174	10,071	340,336
-	35,612	78,904	-	346,332	1,218	11,003	12,221	358,553
-	46,011	1,660	16,442	254,038	395	9,415	9,810	263,848
-	52,998	754	18,275	264,243	69	11,128	11,197	275,440
-	30,003	379,239	2,121	540,877	-	-	-	540,877
-								
-	783	23	-	5,974	6	285	291	6,265
-	262	176	-	4,800	2	26	28	4,828
-	144	5	22	775	2	105	107	882
-	**1,189**	**204**	**22**	**11,549**	**10**	**416**	**426**	**11,975**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses	-
Interest revenues from externals	1,540	9,361	3	1,952	573	-
Interest expenses from externals	1,228	-	386	453	148	-
Interest revenues (expenses), net from externals	312	9,361	(383)	1,499	425	-
Interest revenues (expenses), net – inter-segment	1,879	(6,811)	555	359	32	-
Total interest revenues, net	2,191	2,550	172	1,858	457	-
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	730	155	17	564	99	-
Total non-interest revenues	730	155	17	564	99	-
Total revenues	**2,921**	**2,705**	**189**	**2,422**	**556**	-
Expenses with respect to credit losses	97	99	-	113	94	-
Operating and other expenses to externals	2,448	988	19	1,270	264	-
Operating and other expenses – inter-segment	(4)	-	(1)	(9)	-	-
Total operating and other expenses	2,444	988	18	1,261	264	-
Pre-tax profit	380	1,618	171	1,048	198	-
Provision for taxes on profit	129	547	58	355	67	-
After-tax profit	251	1,071	113	693	131	-
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	251	1,071	113	693	131	-
Net profit attributed to non-controlling interests	(110)	-	-	(10)	-	-
Net profit attributable to shareholders of the banking corporation	**141**	**1,071**	**113**	**683**	**131**	-
Average balance of assets	25,473	188,681	143	33,520	11,526	-
Of which: Investments in associated companies	-	-	-	-	-	-
Average balance of loans to the public	25,473	188,681	143	33,520	11,526	-
Balance of loans to the public at end of reported period	27,559	(3)196,717	154	35,147	12,902	-
Balance of non-accruing debts and debts in arrears over 90 days	99	1,329	-	902	197	-
Balance of other problematic debts	123	-	-	508	194	-
Balance of provision for credit losses at end of reported period	495	897	1	995	198	-
Net accounting write-offs in the reported period	(67)	-	-	(74)	(88)	-
Average balance of liabilities	125,472	-	23,325	54,974	14,044	-
Of which: Average balance of deposits from the public	122,240	-	23,325	54,974	14,044	-
Balance of deposits from the public at end of reported period	125,823	-	25,755	55,805	13,570	-
Average balance of risk assets(1)	23,125	108,389	66	30,550	13,610	-
Balance of risk assets at end of reported period(1)	21,520	116,855	58	33,036	14,098	-
Average balance of assets under management(2)	68,230	9,487	3,001	42,270	8,668	-
Breakdown of interest revenues, net:						-
Margin from credit granting operations	1,011	2,358	1	1,311	337	-
Margin from activities of receiving deposits	1,164	-	167	480	97	-
Other	16	192	4	67	23	-
Total interest revenues, net	2,191	2,550	172	1,858	457	-

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 13,797 million.

-	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
-	1,093	46	1,075	15,643	23	529	552	16,195
-	591	1,213	1,861	5,880	7	68	75	5,955
-	502	(1,167)	(786)	9,763	16	461	477	10,240
-	300	1,406	2,510	230	(4)	(226)	(230)	-
-	**802**	**239**	**1,724**	**9,993**	**12**	**235**	**247**	**10,240**
-	-	-	754	754	-	-	-	754
-	190	49	844	2,648	6	20	26	2,674
-	190	49	1,598	3,402	6	20	26	3,428
-	**992**	**288**	**3,322**	**13,395**	**18**	**255**	**273**	**13,668**
-	101	-	-	504	-	28	28	532
-	381	199	527	6,096	9	68	77	6,173
-	5	2	7	-	-	-	-	-
-	**386**	**201**	**534**	**6,096**	**9**	**68**	**77**	**6,173**
-	505	87	2,788	6,795	9	159	168	6,963
-	171	29	943	2,299	3	54	57	2,356
-	**334**	**58**	**1,845**	**4,496**	**6**	**105**	**111**	**4,607**
-	-	-	5	5	-	-	-	5
-	334	58	1,850	4,501	6	105	111	4,612
-	-	-	(20)	(140)	-	-	-	(140)
-	**334**	**58**	**1,830**	**4,361**	**6**	**105**	**111**	**4,472**
-	27,131	1,925	107,471	395,870	725	16,925	17,650	413,520
-	-	-	346	346	-	-	-	346
-	27,131	1,925	-	288,399	308	4,985	5,293	293,692
-	28,779	2,559	-	303,817	545	5,994	6,539	310,356
-	163	-	-	2,690	-	-	-	2,690
-	402	4	-	1,231	-	28	28	1,259
-	260	3	-	2,849	-	35	35	2,884
-	(7)	-	-	(236)	-	(33)	(33)	(269)
-	37,382	65,945	58,708	379,850	436	5,481	5,917	385,767
-	37,382	65,945	-	317,910	304	5,299	5,603	323,513
-	39,636	75,938	-	336,527	627	7,360	7,987	344,514
-	37,854	2,280	12,910	228,784	527	6,355	6,882	235,666
-	43,490	2,343	12,652	244,052	562	7,637	8,199	252,251
-	32,728	374,075	1,837	540,296	-	-	-	540,296
-								
-	602	28	-	5,648	10	155	165	5,813
-	141	197	-	2,246	1	11	12	2,258
-	59	14	1,724	2,099	1	69	70	2,169
-	**802**	**239**	**1,724**	**9,993**	**12**	**235**	**247**	**10,240**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – residential mortgages	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	1,184	6,456	2	1,415	382-
Interest expenses from externals	696	1	192	153	58-
Interest revenues (expenses), net from externals	488	6,455	(190)	1,262	324-
Interest revenues (expenses), net – inter-segment	948	(4,192)	271	101	13-
Total interest revenues, net	**1,436**	**2,263**	**81**	**1,363**	**337-**
Non-interest financing revenues	1	-	-	1	(2)-
Commissions and other revenues	699	143	23	543	114-
Total non-interest revenues	700	143	23	544	112-
Total revenues	**2,136**	**2,406**	**104**	**1,907**	**449-**
Expenses (reduction of expenses) with respect to credit losses	(55)	(133)	(1)	(71)	22-
Operating and other expenses to externals	2,247	835	26	1,164	220-
Operating and other expenses – inter-segment	(42)	-	2	(24)	19-
Total operating and other expenses	**2,205**	**835**	**28**	**1,140**	**239-**
Pre-tax profit (loss)	(14)	1,704	77	838	188-
Provision (reduced provision) for taxes on profit	(5)	586	26	288	65-
After-tax profit (loss)	**(9)**	**1,118**	**51**	**550**	**123-**
Share of banking corporation in earnings of associated companies	-	-	-	-	- -
Net profit (loss) before attribution to non-controlling interests	(9)	1,118	51	550	123-
Net profit attributed to non-controlling interests	(52)	-	-	(6)	- -
Net profit (loss) attributable to shareholders of the banking corporation	**(61)**	**1,118**	**51**	**544**	**123-**
Average balance of assets	24,262	165,384	203	30,459	8,958-
Of which: Investments in associated companies	-	-	-	-	- -
Average balance of loans to the public	24,262	165,384	203	30,459	8,958-
Balance of loans to the public at end of reported period	26,184	(3)175,626	141	30,744	10,066-
Balance of non-accruing debts and debts in arrears over 90 days	81	1,300	1	696	187-
Balance of other problematic debts	108	-	3	394	130-
Balance of provision for credit losses at end of reported period	236	804	2	499	218-
Net accounting write-offs in the reported period	(45)	(7)	-	(20)	(31)-
Average balance of liabilities	120,539	-	20,947	47,118	15,525-
Of which: Average balance of deposits from the public	117,274	-	20,947	47,118	15,525-
Balance of deposits from the public at end of reported period	118,051	-	21,664	50,247	15,742-
Average balance of risk assets(1)	22,835	96,065	98	27,504	11,927-
Balance of risk assets at end of reported period(1)	23,394	101,946	75	27,368	12,936-
Average balance of assets under management(2)	54,158	8,486	6,718	38,589	6,410-
Breakdown of interest revenues, net:					-
Margin from credit granting operations	958	2,152	1	1,182	285-
Margin from activities of receiving deposits	450	-	72	124	42-
Other	28	111	8	57	10-
Total interest revenues, net	**1,436**	**2,263**	**81**	**1,363**	**337-**

(1) Risk assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes customers' provident funds, study funds, mutual funds and securities.
(3) Of which: Balance of residential mortgages to customers classified under the micro and small business segment, amounting to NIS 16,052 million.

Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Private individuals	Business operations	Total – operations overseas	Total
611	39	248	10,337	12	208	220	10,557
187	340	1,238	2,865	-	7	7	2,872
424	(301)	(990)	7,472	12	201	213	7,685
161	410	2,293	5	-	(5)	(5)	-
585	109	1,303	7,477	12	196	208	7,685
5	3	385	393	-	8	8	401
160	51	467	2,200	22	12	34	2,234
165	54	852	2,593	22	20	42	2,635
750	**163**	**2,155**	**10,070**	**34**	**216**	**250**	**10,320**
(7)	(32)	(1)	(278)	-	-	-	(278)
352	152	503	5,499	14	55	69	5,568
27	16	2	-	-	-	-	-
379	168	505	5,499	14	55	69	5,568
378	27	1,651	4,849	20	161	181	5,030
130	9	569	1,668	7	55	62	1,730
248	18	1,082	3,181	13	106	119	3,300
-	-	(10)	(10)	-	-	-	(10)
248	18	1,072	3,171	13	106	119	3,290
-	-	(44)	(102)	-	-	-	(102)
248	**18**	**1,028**	**3,069**	**13**	**106**	**119**	**3,188**
20,838	1,777	103,668	355,549	655	15,319	15,974	371,523
-	-	22	22	-	-	-	22
20,838	1,777	-	251,881	354	3,198	3,552	255,433
23,574	2,960	-	269,295	134	4,102	4,236	273,531
336	-	-	2,601	-	-	-	2,601
151	-	-	786	-	33	33	819
300	7	-	2,066	-	37	37	2,103
(31)	6	-	(128)	-	-	-	(128)
36,129	53,355	41,790	335,403	539	14,551	15,090	350,493
36,129	53,355	-	290,348	431	3,636	4,067	294,415
36,669	61,365	-	303,738	300	3,886	4,186	307,924
30,618	2,295	11,971	203,313	437	4,573	5,010	208,323
33,606	1,429	12,316	213,070	503	5,137	5,640	218,710
27,498	368,943	3,380	514,182	-	-	-	514,182
490	26	-	5,094	7	114	121	5,215
53	62	-	803	-	8	8	811
42	21	1,303	1,580	5	74	79	1,659
585	109	1,303	7,477	12	196	208	7,685

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2023

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	11,061	58	1,986	13,105	-	5	5	13,110
Interest expenses from externals	-	-	2,863	2,863	-	867	867	3,730
Interest revenues (expenses), net from externals	11,061	58	(877)	10,242	-	(862)	(862)	9,380
Interest revenues (expenses), net – inter-segment	(8,351)	(16)	4,624	(3,743)	-	1,192	1,192	(2,551)
Total interest revenues, net	**2,710**	**42**	**3,747**	**6,499**	**-**	**330**	**330**	**6,829**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	119	192	494	805	2	16	18	823
Total non-interest revenues	119	192	494	805	2	16	18	823
Total revenues	**2,829**	**234**	**4,241**	**7,304**	**2**	**346**	**348**	**7,652**
Expenses with respect to credit losses	247	4	320	571	-	-	-	571
Operating and other expenses to externals	893	72	2,272	3,237	(1)	19	18	3,255
Operating and other expenses – inter-segment	-	-	4	4	1	-	1	5
Total operating and other expenses	**893**	**72**	**2,276**	**3,241**	**-**	**19**	**19**	**3,260**
Pre-tax profit	1,689	158	1,645	3,492	2	327	329	3,821
Provision for taxes on profit	582	54	567	1,203	1	112	113	1,316
After-tax profit	**1,107**	**104**	**1,078**	**2,289**	**1**	**215**	**216**	**2,505**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	1,107	104	1,078	2,289	1	215	216	2,505
Net profit attributed to non-controlling interests	-	(3)	(141)	(144)	-	-	-	(144)
Net profit attributable to shareholders of the banking corporation	**1,107**	**101**	**937**	**2,145**	**1**	**215**	**216**	**2,361**
Average balance of assets	202,312	4,491	22,518	229,321	27	93	120	229,441
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	202,312	4,491	22,518	229,321	27	93	120	229,441
Balance of loans to the public at end of reported period	206,562	4,506	22,938	234,006	26	76	102	234,108
Balance of non-accruing debts	2,153	-	74	2,227	-	-	-	2,227
Balance of debt in arrears 90 days or longer	-	-	71	71	-	-	-	71
Average balance of liabilities	-	-	129,214	129,214	-	26,941	26,941	156,155
Of which: Average balance of deposits from the public	-	-	129,214	129,214	-	26,941	26,941	156,155
Balance of deposits from the public at end of reported period	-	-	133,009	133,009	-	27,746	27,746	160,755
Average balance of risk assets	120,257	4,237	17,891	142,385	7	40	47	142,432
Balance of risk assets at end of reported period	123,185	4,663	17,836	145,684	7	28	35	145,719
Average balance of assets under management	10,045	-	59,946	69,991	-	4,216	4,216	74,207
Breakdown of interest revenues, net:								
Margin from credit granting operations	2,335	42	1,031	3,408	-	-	-	3,408
Margin from activities of receiving deposits	-	-	2,662	2,662	-	330	330	2,992
Other	375	-	54	429	-	-	-	429
Total interest revenues, net	**2,710**	**42**	**3,747**	**6,499**	**-**	**330**	**330**	**6,829**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	**Credit cards**	**Other**	**Total – Households**	**Credit cards**	**Other**	**Total – private banking**	**Total**
Interest revenues from externals	9,361	42	1,498	10,901	-	3	3	10,904
Interest expenses from externals	-	-	1,228	1,228	-	386	386	1,614
Interest revenues (expenses), net from externals	9,361	42	270	9,673	-	(383)	(383)	9,290
Interest revenues (expenses), net – inter-segment	(6,811)	(8)	1,887	(4,932)	-	555	555	(4,377)
Total interest revenues, net	**2,550**	**34**	**2,157**	**4,741**	**-**	**172**	**172**	**4,913**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	155	141	589	885	1	16	17	902
Total non-interest revenues	155	141	589	885	1	16	17	902
Total revenues	**2,705**	**175**	**2,746**	**5,626**	**1**	**188**	**189**	**5,815**
Expenses with respect to credit losses	99	8	89	196	-	-	-	196
Operating and other expenses to externals	988	65	2,383	3,436	-	19	19	3,455
Operating and other expenses – inter-segment	-	(1)	(3)	(4)	-	(1)	(1)	(5)
Total operating and other expenses	**988**	**64**	**2,380**	**3,432**	**-**	**18**	**18**	**3,450**
Pre-tax profit	1,618	103	277	1,998	1	170	171	2,169
Provision for taxes on profit	547	35	94	676	-	58	58	734
After-tax profit	**1,071**	**68**	**183**	**1,322**	**1**	**112**	**113**	**1,435**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	1,071	68	183	1,322	1	112	113	1,435
Net profit attributed to non-controlling interests	**-**	**(6)**	**(104)**	**(110)**	**-**	**-**	**-**	**(110)**
Net profit attributable to shareholders of the banking corporation	**1,071**	**62**	**79**	**1,212**	**1**	**112**	**113**	**1,325**
Average balance of assets	188,681	3,232	22,241	214,154	22	121	143	214,297
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	188,681	3,232	22,241	214,154	22	121	143	214,297
Balance of loans to the public at end of reported period	196,717	4,622	22,937	224,276	26	128	154	224,430
Balance of non-accruing debts	1,329	-	55	1,384	-	-	-	1,384
Balance of debt in arrears 90 days or longer	-	-	44	44	-	-	-	44
Average balance of liabilities	-	3,232	122,240	125,472	-	23,325	23,325	148,797
Of which: Average balance of deposits from the public	-	-	122,240	122,240	-	23,325	23,325	145,565
Balance of deposits from the public at end of reported period	-	-	125,823	125,823	-	25,755	25,755	151,578
Average balance of risk assets	108,389	4,204	18,921	131,514	7	59	66	131,580
Balance of risk assets at end of reported period	116,855	4,123	17,397	138,375	7	51	58	138,433
Average balance of assets under management	9,487	-	68,230	77,717	-	3,001	3,001	80,718
Breakdown of interest revenues, net:								
Margin from credit granting operations	2,358	34	977	3,369	-	1	1	3,370
Margin from activities of receiving deposits	-	-	1,164	1,164	-	167	167	1,331
Other	192	-	16	208	-	4	4	212
Total interest revenues, net	**2,550**	**34**	**2,157**	**4,741**	**-**	**172**	**172**	**4,913**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Residential mortgages	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	6,456	36	1,148	7,640	-	2	2	7,642
Interest expenses from externals	1	-	696	697	-	192	192	889
Interest revenues (expenses), net from externals	6,455	36	452	6,943	-	(190)	(190)	6,753
Interest revenues (expenses), net – inter-segment	(4,192)	(5)	953	(3,244)	-	271	271	(2,973)
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**-**	**81**	**81**	**3,780**
Non-interest financing revenues	-	-	1	1	-	-	-	1
Commissions and other revenues	143	179	520	842	1	22	23	865
Total non-interest revenues	143	179	521	843	1	22	23	866
Total revenues	**2,406**	**210**	**1,926**	**4,542**	**1**	**103**	**104**	**4,646**
Expenses with respect to credit losses	(133)	-	(55)	(188)	-	(1)	(1)	(189)
Operating and other expenses to externals	835	70	2,177	3,082	1	25	26	3,108
Operating and other expenses – inter-segment	-	(4)	(38)	(42)	-	2	2	(40)
Total operating and other expenses	**835**	**66**	**2,139**	**3,040**	**1**	**27**	**28**	**3,068**
Pre-tax profit (loss)	1,704	144	(158)	1,690	-	77	77	1,767
Provision for taxes on profit	586	50	(55)	581	-	26	26	607
After-tax profit (loss)	**1,118**	**94**	**(103)**	**1,109**	**-**	**51**	**51**	**1,160**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	1,118	94	(103)	1,109	-	51	51	1,160
Net profit attributed to non-controlling interests	-	(5)	(47)	(52)	-	-	-	(52)
Net profit (loss) attributable to shareholders of the banking corporation	**1,118**	**89**	**(150)**	**1,057**	**-**	**51**	**51**	**1,108**
Average balance of assets	165,384	3,265	20,997	189,646	15	188	203	189,849
Of which: Investments in associated companies	-	-	-	-	-	-	-	-
Average balance of loans to the public	165,384	3,265	20,997	189,646	15	188	203	189,849
Balance of loans to the public at end of reported period	175,626	4,631	21,553	201,810	22	119	141	201,951
Balance of non-accruing debts	36	-	56	92	-	-	-	92
Balance of debt in arrears 90 days or longer	1,264	-	25	1,289	-	1	1	1,290
Average balance of liabilities	-	3,265	117,274	120,539	-	20,947	20,947	141,486
Of which: Average balance of deposits from the public	-	-	117,274	117,274	-	20,947	20,947	138,221
Balance of deposits from the public at end of reported period	-	-	118,051	118,051	-	21,664	21,664	139,715
Average balance of risk assets	96,065	4,133	18,702	118,900	7	91	98	118,998
Balance of risk assets at end of reported period	101,946	4,085	19,309	125,340	7	68	75	125,415
Average balance of assets under management	8,486	-	54,158	62,644	-	6,718	6,718	69,362
Breakdown of interest revenues, net:								
Margin from credit granting operations	2,152	30	928	3,110	-	1	1	3,111
Margin from activities of receiving deposits	-	-	450	450	-	72	72	522
Other	111	1	27	139	-	8	8	147
Total interest revenues, net	**2,263**	**31**	**1,405**	**3,699**	**-**	**81**	**81**	**3,780**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2023
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Constru-ction and real estate	Other	Total	Constru-ction and real estate	Other	Total	Constru-ction and real estate	Other	Total
Interest revenues from externals	1,085	1,799	2,884	322	639	961	1,435	966	2,401
Interest expenses from externals	230	1,060	1,290	49	354	403	268	1,246	1,514
Interest revenues, net from externals	855	739	1,594	273	285	558	1,167	(280)	887
Interest revenues (expenses), net – inter-segment	(167)	1,231	1,064	(125)	214	89	(615)	917	302
Total interest revenues, net	**688**	**1,970**	**2,658**	**148**	**499**	**647**	**552**	**637**	**1,189**
Non-interest financing revenues	-	-	-	-	-	-	-	-	-
Commissions and other revenues	115	469	584	32	69	101	140	102	242
Total non-interest revenues	115	469	584	32	69	101	140	102	242
Total revenues	**803**	**2,439**	**3,242**	**180**	**568**	**748**	**692**	**739**	**1,431**
Expenses with respect to credit losses	90	436	526	12	94	106	107	47	154
Operating and other expenses to externals	151	998	1,149	12	180	192	67	250	317
Operating and other expenses – inter-segment	-	7	7	-	(4)	(4)	(1)	1	-
Total operating and other expenses	**151**	**1,005**	**1,156**	**12**	**176**	**188**	**66**	**251**	**317**
Pre-tax profit	562	998	1,560	156	298	454	519	441	960
Provision for taxes on profit	194	343	537	54	102	156	179	152	331
After-tax profit	**368**	**655**	**1,023**	**102**	**196**	**298**	**340**	**289**	**629**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	368	655	1,023	102	196	298	340	289	629
Net profit attributed to non-controlling interests	-	(15)	(15)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**368**	**640**	**1,008**	**102**	**196**	**298**	**340**	**289**	**629**
Average balance of assets	13,225	21,155	34,380	3,983	8,282	12,265	18,868	14,979	33,847
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	13,225	21,155	34,380	3,983	8,282	12,265	18,868	14,979	33,847
Balance of loans to the public at end of reported period	13,453	21,494	34,947	4,012	8,159	12,171	20,604	15,682	36,286
Balance of non-accruing debts	209	613	822	32	221	253	185	50	235
Balance of debt in arrears 90 days or longer	15	58	73	-	-	-	-	-	-
Average balance of liabilities	10,838	44,766	55,604	1,876	10,829	12,705	7,654	29,346	37,000
Of which: Average balance of deposits from the public	10,838	44,766	55,604	1,876	10,829	12,705	7,654	29,346	37,000
Balance of deposits from the public at end of reported period	10,299	46,492	56,791	1,806	12,464	14,270	8,305	27,307	35,612
Average balance of risk assets	13,926	19,022	32,948	4,950	9,595	14,545	28,580	17,431	46,011
Balance of risk assets at end of reported period	13,954	18,108	32,062	4,926	9,509	14,435	32,562	20,436	52,998
Average balance of assets under management	4,084	40,742	44,826	1,414	9,067	10,481	9,653	20,350	30,003
Breakdown of interest revenues, net:									
Margin from credit granting operations	438	934	1,372	109	279	388	501	282	783
Margin from activities of receiving deposits	241	919	1,160	37	173	210	50	212	262
Other	9	117	126	2	47	49	1	143	144
Total interest revenues, net	**688**	**1,970**	**2,658**	**148**	**499**	**647**	**552**	**637**	**1,189**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Constru-ction and real estate	**Other**	**Total**	**Constru-ction and real estate**	**Other**	**Total**	**Constru-ction and real estate**	**Other**	**Total**
Interest revenues from externals	661	1,291	1,952	176	397	573	677	416	1,093
Interest expenses from externals	71	382	453	15	133	148	72	519	591
Interest revenues (expenses), net from externals	590	909	1,499	161	264	425	605	(103)	502
Interest revenues (expenses), net – inter-segment	(61)	420	359	(37)	69	32	(134)	434	300
Total interest revenues, net	**529**	**1,329**	**1,858**	**124**	**333**	**457**	**471**	**331**	**802**
Non-interest financing revenues	-	-	-	-	-	-	-	-	-
Commissions and other revenues	96	468	564	32	67	99	111	79	190
Total non-interest revenues	96	468	564	32	67	99	111	79	190
Total revenues	**625**	**1,797**	**2,422**	**156**	**400**	**556**	**582**	**410**	**992**
Expenses with respect to credit losses	60	53	113	11	83	94	90	11	101
Operating and other expenses to externals	-	1,270	1,270	-	264	264	5	376	381
Operating and other expenses – inter-segment	-	(9)	(9)	-	-	-	5	-	5
Total operating and other expenses	**-**	**1,261**	**1,261**	**-**	**264**	**264**	**10**	**376**	**386**
Pre-tax profit	565	483	1,048	145	53	198	482	23	505
Provision for taxes on profit	191	164	355	49	18	67	163	8	171
After-tax profit	**374**	**319**	**693**	**96**	**35**	**131**	**319**	**15**	**334**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	374	319	693	96	35	131	319	15	334
Net profit attributed to non-controlling interests	-	(10)	(10)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**374**	**309**	**683**	**96**	**35**	**131**	**319**	**15**	**334**
Average balance of assets	11,988	21,532	33,520	3,467	8,059	11,526	15,528	11,603	27,131
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	11,988	21,532	33,520	3,467	8,059	11,526	15,528	11,603	27,131
Balance of loans to the public at end of reported period	13,057	22,090	35,147	3,522	9,380	12,902	23,581	5,198	28,779
Balance of non-accruing debts	219	614	833	33	164	197	6	157	163
Balance of debt in arrears 90 days or longer	22	47	69	-	-	-	-	-	-
Average balance of liabilities	11,053	43,921	54,974	2,575	11,469	14,044	8,570	28,812	37,382
Of which: Average balance of deposits from the public	11,053	43,921	54,974	2,575	11,469	14,044	8,570	28,812	37,382
Balance of deposits from the public at end of reported period	11,395	44,410	55,805	2,269	11,301	13,570	8,583	31,053	39,636
Average balance of risk assets	12,090	18,460	30,550	4,441	9,169	13,610	24,562	13,292	37,854
Balance of risk assets at end of reported period	13,825	19,211	33,036	4,736	9,362	14,098	27,348	16,142	43,490
Average balance of assets under management	4,212	38,058	42,270	1,855	6,813	8,668	8,216	24,512	32,728
Breakdown of interest revenues, net:									
Margin from credit granting operations	405	906	1,311	101	236	337	387	215	602
Margin from activities of receiving deposits	100	380	480	16	81	97	39	102	141
Other	24	43	67	7	16	23	45	14	59
Total interest revenues, net	**529**	**1,329**	**1,858**	**124**	**333**	**457**	**471**	**331**	**802**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Total	Constru-ction and real estate	Other	Total	Constru-ction and real estate	Other	Total	Constru-ction and real estate	Other
Interest revenues from externals	415	1,000	1,415	81	301	382	368	243	611
Interest expenses from externals	22	131	153	6	52	58	10	177	187
Interest revenues, net from externals	393	869	1,262	75	249	324	358	66	424
Interest revenues (expenses), net – inter-segment	(31)	132	101	(5)	18	13	(40)	201	161
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**
Non-interest financing revenues	-	1	1	-	(2)	(2)	-	5	5
Commissions and other revenues	76	467	543	26	88	114	94	66	160
Total non-interest revenues	76	468	544	26	86	112	94	71	165
Total revenues	**438**	**1,469**	**1,907**	**96**	**353**	**449**	**412**	**338**	**750**
Expenses (reduction of expenses) with respect to credit losses	9	(80)	(71)	(1)	23	22	32	(39)	(7)
Operating and other expenses to externals	124	1,040	1,164	27	193	220	90	262	352
Operating and other expenses – inter-segment	(2)	(22)	(24)	2	17	19	5	22	27
Total operating and other expenses	**122**	**1,018**	**1,140**	**29**	**210**	**239**	**95**	**284**	**379**
Pre-tax profit	307	531	838	68	120	188	285	93	378
Provision for taxes on profit	106	182	288	24	41	65	98	32	130
After-tax profit	**201**	**349**	**550**	**44**	**79**	**123**	**187**	**61**	**248**
Share of banking corporation in earnings of associated companies	-	-	-	-	-	-	-	-	-
Net profit before attribution to non-controlling interests	201	349	550	44	79	123	187	61	248
Net profit attributed to non-controlling interests	-	(6)	(6)	-	-	-	-	-	-
Net profit attributable to shareholders of the banking corporation	**201**	**343**	**544**	**44**	**79**	**123**	**187**	**61**	**248**
Average balance of assets	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Of which: Investments in associated companies	-	-	-	-	-	-	-	-	-
Average balance of loans to the public	9,329	21,130	30,459	2,773	6,185	8,958	9,755	11,083	20,838
Balance of loans to the public at end of reported period	9,401	21,343	30,744	3,107	6,959	10,066	12,465	11,109	23,574
Balance of non-accruing debts	202	468	670	13	174	187	56	280	336
Balance of debt in arrears 90 days or longer	-	26	26	-	-	-	-	-	-
Average balance of liabilities	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Of which: Average balance of deposits from the public	8,664	38,454	47,118	3,117	12,408	15,525	7,730	28,399	36,129
Balance of deposits from the public at end of reported period	9,645	40,602	50,247	3,071	12,671	15,742	8,833	27,836	36,669
Average balance of risk assets	9,725	17,779	27,504	3,878	8,049	11,927	18,273	12,345	30,618
Balance of risk assets at end of reported period	10,071	17,297	27,368	4,163	8,773	12,936	21,617	11,989	33,606
Average balance of assets under management	4,033	34,556	38,589	999	5,411	6,410	5,527	21,971	27,498
Breakdown of interest revenues, net:									
Margin from credit granting operations	333	849	1,182	55	230	285	305	185	490
Margin from activities of receiving deposits	17	107	124	14	28	42	-	53	53
Other	12	45	57	1	9	10	13	29	42
Total interest revenues, net	**362**	**1,001**	**1,363**	**70**	**267**	**337**	**318**	**267**	**585**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2023

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	4	2,885	-	-	2,889
Interest expenses from externals	-	1,525	-	-	1,525
Interest revenues (expenses), net from externals	4	1,360	-	-	1,364
Interest revenues (expenses), net – inter-segment	15	(1,357)	-	-	(1,342)
Interest revenues (expenses), net	**19**	**3**	**-**	**-**	**22**
Non-interest revenues from externals – financing	202	279	30	-	511
Non-interest revenues from externals – operating	152	-	-	308	460
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	354	279	30	308	971
Total revenues	**373**	**282**	**30**	**308**	**993**
Expenses with respect to credit losses	-	-	-	10	10
Operating and other expenses from externals	1	-	-	379	380
Operating and other expenses – inter-segment	(1)	-	-	(5)	(6)
Total operating and other expenses	**-**	**-**	**-**	**374**	**374**
Pre-tax profit (loss)	373	282	30	(76)	609
Provision (reduced provision) for taxes on profit	129	97	10	(26)	210
After-tax profit (loss)	**244**	**185**	**20**	**(50)**	**399**
Share of banking corporation in earnings of associated companies	-	-	-	1	1
Net profit (loss) before attribution to non-controlling interests	244	185	20	(49)	400
Net profit attributed to non-controlling interests	-	-	-	(11)	(11)
Net profit (loss) attributable to share holders of the banking corporation	**244**	**185**	**20**	**(60)**	**389**
Average balance of assets	6,738	79,679	486	9,223	96,126
Includes: Investments in associated companies	-	-	200	-	200
Average balance of liabilities	-	22,719	-	42,775	65,494
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	2,468	3,090	636	10,248	16,442
Balance of risk assets at end of reported period	4,112	4,654	685	8,824	18,275
Average balance of assets under management	-	2,282	-	(161)	2,121
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	63	20	-	-	-
CPI differentials, net	6	935	-	-	-
Interest exposure, net	94	(614)	-	-	-
Equity exposure, net	(3)	-	-	-	-
Interest spreads attributable to financial management	-	81	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	160	422	-	-	-
Gains or losses from sale or other then temporary impairment of bonds	-	(127)	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	(13)	-	-	-
Other non-interest revenues	213	-	-	-	-
Total net interest revenues and non-interest revenues	**373**	**282**	**-**	**-**	**-**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	25	1,050	-	-	1,075
Interest expenses from externals	-	1,861	-	-	1,861
Interest revenues (expenses), net from externals	25	(811)	-	-	(786)
Interest revenues (expenses), net – inter-segment	(5)	2,515	-	-	2,510
Interest expenses, net	**20**	**1,704**	**-**	**-**	**1,724**
Non-interest revenues from externals – financing	345	450	(49)	8	754
Non-interest revenues from externals – operating	113	-	-	731	844
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	458	450	(49)	739	1,598
Total revenues	**478**	**2,154**	**(49)**	**739**	**3,322**
Reduced expenses with respect to credit losses	-	-	-	-	-
Operating and other expenses from externals	1	-	-	526	527
Operating and other expenses – inter-segment	1	-	-	6	7
Total operating and other expenses	**2**	**-**	**-**	**532**	**534**
Pre-tax profit (loss)	476	2,154	(49)	207	2,788
Provision (reduced provision) for taxes on profit	161	729	(17)	70	943
After-tax profit (loss)	**315**	**1,425**	**(32)**	**137**	**1,845**
Share of banking corporation in earnings of associated companies	-	-	-	5	5
Net profit (loss) before attribution to non-controlling interests	315	1,425	(32)	142	1,850
Net profit attributed to non-controlling interests	-	-	-	(20)	(20)
Net profit (loss) attributable to share holders of the banking corporation	**315**	**1,425**	**(32)**	**122**	**1,830**
Average balance of assets	214	92,452	346	14,459	107,471
Includes: Investments in associated companies	-	-	346	-	346
Average balance of liabilities	-	16,444	-	42,264	58,708
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	2,005	1,997	797	8,111	12,910
Balance of risk assets at end of reported period	1,354	1,837	640	8,821	12,652
Average balance of assets under management	-	2,125	-	(288)	1,837
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	143	34	-	-	-
CPI differentials, net	9	1,135	-	-	-
Interest exposure, net	121	857	-	-	-
Equity exposure, net	9	-	-	-	-
Interest spreads attributable to financial management	-	77	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	282	2,103	-	-	-
Gains or losses from sale or other then temporary impairment of bonds	-	(201)	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	242	-	-	-
Other non-interest revenues	196	10	-	-	-
Total net interest revenues and non-interest revenues	478	2,154	-	-	-

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Financial management segment				
	Trading activity	**Asset and liability management activity**	**Real investment activity**	**Other**	**Total**
Interest revenues from externals	14	234	-	-	248
Interest expenses from externals	-	1,238	-	-	1,238
Interest revenues (expenses), net from externals	14	(1,004)	-	-	(990)
Interest revenues (expenses), net – inter-segment	6	2,287	-	-	2,293
Interest revenues (expenses), net	**20**	**1,283**	**-**	**-**	**1,303**
Non-interest revenues from externals – financing	90	238	57	-	385
Non-interest revenues from externals – operating	108	-	-	359	467
Non-interest revenues – inter-segment	-	-	-	-	-
Total non-interest revenues	198	238	57	359	852
Total revenues	**218**	**1,521**	**57**	**359**	**2,155**
Expenses with respect to credit losses	-	-	-	(1)	(1)
Operating and other expenses from externals	124	67	-	312	503
Operating and other expenses – inter-segment	-	-	-	2	2
Total operating and other expenses	**124**	**67**	**-**	**314**	**505**
Pre-tax profit (loss)	94	1,454	57	46	1,651
Provision for taxes on profit	32	501	20	16	569
After-tax profit (loss)	**62**	**953**	**37**	**30**	**1,082**
Share of banking corporation in earnings of associated companies	-	-	-	(10)	(10)
Net profit (loss) before attribution to non-controlling interests	62	953	37	20	1,072
Net profit attributed to non-controlling interests	-	-	-	(44)	(44)
Net profit (loss) attributable to share holders of the banking corporation	**62**	**953**	**37**	**(24)**	**1,028**
Average balance of assets	126	103,342	200	-	103,668
Includes: Investments in associated companies	-	-	22	-	22
Average balance of liabilities	-	41,790	-	-	41,790
Includes: Average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at end of reported period	-	-	-	-	-
Average balance of risk assets	2,551	2,095	795	6,530	11,971
Balance of risk assets at end of reported period	2,440	2,121	884	6,871	12,316
Average balance of assets under management	-	-	-	3,380	3,380
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differentials, net	15	(7)	-	-	-
CPI differentials, net	(1)	441	-	-	-
Interest exposure, net	33	830	-	-	-
Equity exposure, net	5	-	-	-	-
Interest spreads attributable to financial management	-	22	-	-	-
Total net interest revenues and non-interest revenues, by accrual basis	52	1,286	-	-	-
Gains or losses from sale or other then temporary impairment of bonds	-	51	-	-	-
Change in difference between fair value and accrual basis of derivative instruments recognized in profit and loss	-	100	-	-	-
Other non-interest revenues	166	84	-	-	-
Total net interest revenues and non-interest revenues	218	1,521	-	-	-

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues[1]			Net profit attributable to shareholders of the banking corporation			Total assets	
	For the year ended December 31							
	2023	2022	2021	2023	2022	2021	2023	2022
Israel	13,584	13,165	10,065	4,739	4,361	3,069	407,129	402,949
Switzerland	-	-	16	-	-	14		
Other – outside of Israel	1,196	503	239	171	111	105	41,075	25,343
Total outside Israel	1,196	503	255	171	111	119	41,075	25,343
Total consolidated	**14,780**	**13,668**	**10,320**	**4,910**	**4,472**	**3,188**	**448,204**	**428,292**

(1) Revenues – net interest revenues and non-interest revenues.

C. Operating segments in conformity with the management approach

The Bank manages its operations in six major operating segments, which are distinguished by customercharacteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivatives, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted through Bank branches, the trading room, the business centers, headquarters units of the Bank and Bank subsidiaries in Israel and overseas.

For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments".

Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division. This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business customers (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). Occasionally, due to growth in activity of a customer served by the Retail Division, the customermay exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division[1]. Private banking sector customers are individual customers with liquid assets (primarily short-term deposits and investments in securities) over NIS 1 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business customers with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Corporate Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The Finance Division is responsible for this segment, except for investments in non-banking corporations, for which the Corporate Division is responsible.

The major products and guidelines for attribution of balances, revenues and expenses to customers in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2023

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	(1,026)	10,131	(163)	749	320	473	1,491	11,975
Inter-segment	5,427	(7,799)	243	1,388	180	1,676	(1,115)	-
Total interest revenues, net	**4,401**	**2,332**	**80**	**2,137**	**500**	**2,149**	**376**	**11,975**
Non-interest financing revenues	27	1	1	2	1	31	448	511
Commissions and other revenues	708	126	15	489	80	398	478	2,294
Total revenues	**5,136**	**2,459**	**96**	**2,628**	**581**	**2,578**	**1,302**	**14,780**
Expenses with respect to credit losses	265	233	-	384	124	447	10	1,463
Operating and other expenses	2,384	840	34	1,005	239	648	419	5,569
Pre-tax profit	2,487	1,386	62	1,239	218	1,483	873	7,748
Provision for taxes on profit	857	477	21	427	75	511	301	2,669
After-tax profit	**1,630**	**909**	**41**	**812**	**143**	**972**	**572**	**5,079**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	1	1
Net profit:								
Before attribution to non-controlling interests	1,630	909	41	812	143	972	573	5,080
Attributable to non-controlling interests	(144)	-	-	(15)	-	-	(11)	(170)
Net profit attributable to shareholders of the Bank	**1,486**	**909**	**41**	**797**	**143**	**972**	**562**	**4,910**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	54.4%	8.0%	-	39.9%	12.7%	12.5%	-	19.1%
Average balance of loans to the public, net	35,108	190,522	273	22,548	9,408	57,740	-	315,599
Average balance of deposits from the public	156,827	-	5,512	48,142	13,400	101,542	14,913	340,336
Average balance of assets	37,355	191,957	389	22,873	9,543	77,752	94,924	434,793
Average balance of risk assets(2)	30,973	110,461	174	19,575	10,870	75,111	16,684	263,848

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2022

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	490	8,719	(58)	887	307	784	(889)	10,240
Inter-segment	2,194	(6,566)	119	578	78	876	2,721	-
Total interest revenues, net	**2,684**	**2,153**	**61**	**1,465**	**385**	**1,660**	**1,832**	**10,240**
Non-interest financing revenues	57	1	1	2	1	121	571	754
Commissions and other revenues	747	150	16	478	86	361	836	2,674
Total revenues	**3,488**	**2,304**	**78**	**1,945**	**472**	**2,142**	**3,239**	**13,668**
Expenses (reduction of expenses) with respect to credit losses	100	94	1	109	93	135	-	532
Operating and other expenses	2,544	951	27	1,107	313	692	539	6,173
Pre-tax profit	844	1,259	50	729	66	1,315	2,700	6,963
Provision for taxes on profit	286	426	17	247	22	445	913	2,356
After-tax profit	**558**	**833**	**33**	**482**	**44**	**870**	**1,787**	**4,607**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	5	5
Before attribution to non-controlling interests	558	833	33	482	44	870	1,792	4,612
Attributable to non-controlling interests	(110)	-	-	(10)	-	-	(20)	(140)
Net profit attributable to shareholders of the Bank	**448**	**833**	**33**	**472**	**44**	**870**	**1,772**	**4,472**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	17.6%	8.2%	-	25.7%	4.2%	14.5%	-	20.0%
Average balance of loans to the public, net	33,763	178,602	480	22,478	9,313	46,726	-	291,362
Average balance of deposits from the public	145,190	-	7,026	46,911	14,693	95,179	14,514	323,513
Average balance of assets	34,589	179,349	1,042	22,583	9,399	67,567	98,991	413,520
Average balance of risk assets(2)	30,188	101,626	133	18,671	10,585	59,487	14,976	235,666

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued
Operating segments in conformity with the management approach

For the year ended December 31, 2021

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues (expenses), net								
From externals	747	5,952	(30)	923	273	990	(1,170)	7,685
Inter-segment	1,078	(4,029)	74	202	15	114	2,546	-
Total interest revenues, net	**1,825**	**1,923**	**44**	**1,125**	**288**	**1,104**	**1,376**	**7,685**
Non-interest financing revenues	79	1	1	3	(1)	57	261	401
Commissions and other revenues	723	147	23	454	86	318	483	2,234
Total revenues	**2,627**	**2,071**	**68**	**1,582**	**373**	**1,479**	**2,120**	**10,320**
Expenses with respect to credit losses	(76)	(130)	(5)	(93)	24	11	(9)	(278)
Operating and other expenses	2,283	801	31	988	283	658	524	5,568
Pre-tax profit (loss)	420	1,400	42	687	66	810	1,605	5,030
Provision (reduced provision) for taxes on profit	144	482	14	236	23	279	552	1,730
After-tax profit	**276**	**918**	**28**	**451**	**43**	**531**	**1,053**	**3,300**
Share in net profit of associated companies, after tax	-	-	-	-	-	-	(10)	(10)
Net profit (loss):								
Before attribution to non-controlling interests	276	918	28	451	43	531	1,043	3,290
Attributable to non-controlling interests	(52)	-	-	(6)	-	-	(44)	(102)
Net profit attributable to shareholders of the Bank	**224**	**918**	**28**	**445**	**43**	**531**	**999**	**3,188**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	9.4%	10.0%	-	23.3%	4.8%	10.9%	-	15.8%
Average balance of loans to the public, net	31,808	157,145	421	22,668	7,631	33,509	-	253,182
Average balance of deposits from the public	135,541	-	7,645	42,268	13,515	79,845	15,601	294,415
Average balance of assets	32,038	156,125	505	22,771	7,652	45,748	106,684	371,523
Average balance of risk assets(2)	28,278	90,985	238	19,220	8,896	48,462	12,244	208,323

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.
(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the year ended December 31, 2023					
	Provision for credit losses					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,690	902	512	3,104	1	3,105
Expenses with respect to credit losses	882	247	324	1,453	10	1,463
Accounting write-offs[2]	(290)	-	(257)	(547)	-	(547)
Collection of debts written off for accounting purposes in previous years[2]	137	-	123	260	-	260
Net accounting write-offs	(153)	-	(134)	(287)	-	(287)
Balance of provision for credit losses at end of period	**2,419**	**1,149**	**702**	**4,270**	**11**	**4,281**
Of which: With respect to off balance sheet credit instruments	**156**	**20**	**25**	**201**	**-**	**201**

	For the year ended December 31, 2022					
Balance of provision for credit losses at start of period	1,256	804	254	2,314	1	2,315
Opening balance adjustment for effect of initial application of public reporting directives with regard to expected credit losses[4]	275	(32)	149	392	-	392
Expenses with respect to credit losses	336	99	97	532	-	532
Accounting write-offs[2]	(330)	-	(189)	(519)	-	(519)
Collection of debts written off for accounting purposes in previous years[2]	128	-	122	250	-	250
Net accounting write-offs	(202)	-	(67)	(269)	-	(269)
Other[3]	25	31	79	135	-	135
Balance of provision for credit losses at end of period	**1,690**	**902**	**512**	**3,104**	**1**	**3,105**
Of which: With respect to off balance sheet credit instruments	**199**	**5**	**16**	**220**	**-**	**220**

	For the year ended December 31, 2021					
Balance of provision for credit losses at start of period	1,383	942	340	2,665	2	2,667
Expenses (income) with respect to credit losses	(88)	(133)	(56)	(277)	(1)	(278)
Accounting write-offs[2]	(241)	(10)	(143)	(394)	-	(394)
Collection of debts written off for accounting purposes in previous years[2]	165	3	98	266	-	266
Net accounting write-offs	(76)	(7)	(45)	(128)	-	(128)
Other[3]	37	2	15	54	-	54
Balance of provision for credit losses at end of period	**1,256**	**804**	**254**	**2,314**	**1**	**2,315**
Of which: With respect to off balance sheet credit instruments	**195**	**-**	**16**	**211**	**-**	**211**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for bonds and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of customers being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large non-accruing debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.
(3) Movement in provision for credit losses in subsidiary, primarily attributed to cost of acquisition upon initial consolidation, and is therefore not included on the consolidated balance sheet.
(4) Including with respect to residential mortgages of insignificant amount.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

2. Debts, bonds held to maturity and available for sale, loans to the public and balance of provision for credit losses

	December 31, 2023					
	Loans to the public				Banks, governments and bonds	Total
	Commercial	Housing	Individual – other	Total		
Recorded debt balance:						
reviewed on individual basis	82,846	-	146	82,992	42,980	125,972
reviewed on group basis	13,080	206,657	26,686	246,423	-	246,423
Total debts	**95,926**	**(2)206,657**	**26,832**	**329,415**	**42,980**	**372,395**
Provision for credit losses with respect to debts:						
reviewed on individual basis	1,700	-	1	1,701	11	1,712
reviewed on group basis	563	1,129	676	2,368	-	2,368
Total provision for credit losses	**2,263**	**1,129**	**677**	**4,069**	**11**	**4,080**

	December 31, 2022					
Recorded debt balance:						
reviewed on individual basis	73,817	-	407	74,224	30,560	104,784
reviewed on group basis	13,160	196,840	26,132	236,132	-	236,132
Total debts	**86,977**	**(2)196,840**	**26,539**	**310,356**	**30,560**	**340,916**
Provision for credit losses with respect to debts:						
reviewed on individual basis	1,106	-	12	1,118	1	1,119
reviewed on group basis	385	897	484	1,766	-	1,766
Total provision for credit losses	**1,491**	**897**	**496**	**2,884**	**1**	**2,885**

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

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 13,378 million (as of December 31, 2022: NIS 12,566 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears

	As of December 31, 2023					
		Problematic[1]			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer[2]	In arrears 30 to 89 days[3]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[4]	27,695	364	321	28,380	10	43
Construction and real estate – real estate operations	8,244	469	105	8,818	5	26
Financial services	9,566	3	24	9,593	3	1
Commercial – other	41,514	1,267	850	43,631	55	239
Total commercial	**87,019**	**2,103**	**1,300**	**90,422**	**73**	**309**
Private individuals – residential mortgages	204,400	-	2,153	206,553	-	1,434
Private individuals – other	26,441	195	74	26,710	71	138
Total loans to the public – activity in Israel	**317,860**	**2,298**	**3,527**	**323,685**	**144**	**1,881**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,594	-	135	2,729	-	-
Commercial – other	2,585	159	31	2,775	-	33
Total commercial	**5,179**	**159**	**166**	**5,504**	**-**	**33**
Private individuals	226	-	-	226	-	-
Total loans to the public – activity overseas	**5,405**	**159**	**166**	**5,730**	**-**	**33**
Total loans to the public	**323,265**	**2,457**	**3,693**	**329,415**	**144**	**1,914**

(1) Loans to the public – non-accruing, inferior or under special supervision
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 103 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,070 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.a. Credit quality and arrears – continued

	As of December 31, 2022					
		Problematic(1)			Accruing debts – additional information	
	In good standing	Accruing	Non-accruing	Total	In arrears 90 days or longer(2)	In arrears 30 to 89 days(3)
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction(4)	25,416	343	159	25,918	20	54
Construction and real estate – real estate operations	7,091	58	99	7,248	2	13
Financial services	9,224	2	20	9,246	-	2
Commercial – other	38,022	774	904	39,700	47	118
Total commercial	**79,753**	**1,177**	**1,182**	**82,112**	**69**	**187**
Private individuals – residential mortgages	195,374	-	1,329	196,703	-	1,054
Private individuals – other	26,313	167	55	26,535	44	103
Total public – activity in Israel	**301,440**	**1,344**	**2,566**	**305,350**	**113**	**1,344**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,616	-	-	2,616	-	-
Commercial – other	2,210	28	11	2,249	-	-
Total commercial	**4,826**	**28**	**11**	**4,865**	**-**	**-**
Private individuals	141	-	-	141	-	-
Total public – activity overseas	**4,967**	**28**	**11**	**5,006**	**-**	**-**
Total public	**306,407**	**1,372**	**2,577**	**310,356**	**113**	**1,344**

(1) Loans to the public – non-accruing, inferior or under special supervision
(2) Classified as problematic debts accruing interest revenues.
(3) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 105 million were classified as problematic debts.
(4) Includes debts amounting to NIS 1,352 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.B. Credit quality by year when credit was extended

	Recorded debt balance of term loans to the public								As of December 31, 2023
	2023	2022	2021	2020	2019	Previously	Recorded debt balance of renewable loans	Recorded debt balance of renewable loans converted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**19,038**	**8,916**	**2,774**	**1,456**	**1,222**	**679**	**2,792**	**321**	**37,198**
Credit at performing credit rating	17,470	8,503	2,371	1,391	1,190	643	2,419	313	34,300
Credit other than at performing credit rating and non-problematic	1,005	188	317	20	17	19	67	6	1,639
Accruing problematic credit	516	18	58	9	5	2	224	1	833
Non-accruing credit	47	207	28	36	10	15	82	1	426
Commercial, other – total	**12,419**	**7,490**	**5,025**	**3,830**	**1,222**	**1,588**	**21,094**	**556**	**53,224**
Credit at performing credit rating	11,661	6,816	4,366	3,498	1,153	1,458	19,337	490	48,779
Credit other than at performing credit rating and non-problematic	328	436	492	113	15	18	854	45	2,301
Accruing problematic credit	271	124	117	74	18	27	628	11	1,270
Non-accruing credit	159	114	50	145	36	85	275	10	874
Individuals – residential mortgages – total	**21,402**	**36,420**	**33,147**	**21,491**	**17,994**	**76,099**	**-**	**-**	**206,553**
LTV up to 60%	12,637	19,503	17,715	11,943	10,751	52,296	-	-	124,845
LTV from 60% to 75%	8,269	15,967	14,045	9,102	7,209	23,726	-	-	78,318
LTV over 75%	496	950	1,387	446	34	77	-	-	3,390
Credit at performing credit rating, not in arrears	20,916	35,729	32,498	20,875	17,481	73,598	-	-	201,097
Credit not at performing credit rating, not in arrears	309	328	243	180	124	685	-	-	1,869
In arrears 30-89 days	114	198	195	194	160	573	-	-	1,434
Non-accruing credit	63	165	211	242	229	1,243	-	-	2,153
Individuals, other – total	**8,434**	**5,683**	**2,587**	**1,223**	**996**	**1,308**	**6,392**	**87**	**26,710**
Credit at performing credit rating, not in arrears	8,258	5,524	2,516	1,192	968	1,257	6,291	81	26,087
Credit not at performing credit rating, not in arrears	97	63	40	22	21	45	48	4	340
In arrears 30-89 days	38	49	15	3	4	4	25	-	138
In arrears over 90 days	16	28	8	3	2	1	13	-	71
Non-accruing credit	25	19	8	3	1	1	15	2	74
Total loans to the public – activity in Israel	**61,293**	**58,509**	**43,533**	**28,000**	**21,434**	**79,674**	**30,278**	**964**	**323,685**
Borrower activity overseas									
Total loans to the public – activity overseas	**1,457**	**1,204**	**1,223**	**662**	**155**	**1,029**	**-**	**-**	**5,730**
Non-problematic credit	1,350	1,126	1,138	629	133	1,029	-	-	5,405
Accruing problematic credit	87	30	33	9	-	-	-	-	159
Non-accruing credit	20	48	52	24	22	-	-	-	166
Total loans to the public	**62,750**	**59,713**	**44,756**	**28,662**	**21,589**	**80,703**	**30,278**	**964**	**329,415**

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

1.B. Credit quality by year when credit was extended – continued

	As of December 31, 2022								
	Recorded debt balance of term loans to the public								
	2022	2021	2020	2019	2018	Previously	Recorded debt balance of renewable loans	Recorded debt balance of renewable loans converted into term loans	Total
Credit quality by year when credit was extended									
Borrower activity in Israel									
Public – commercial									
Construction and real estate – total	**19,218**	**7,551**	**1,937**	**1,018**	**637**	**319**	**1,855**	**631**	**33,166**
Credit at performing credit rating	18,677	7,230	1,773	888	482	265	1,720	602	31,637
Credit other than at performing credit rating and non-problematic	406	237	63	59	36	27	25	17	870
Accruing problematic credit	85	52	72	44	109	1	27	11	401
Non-accruing credit	50	32	29	27	10	26	83	1	258
Commercial, other – total	**15,621**	**6,153**	**5,438**	**1,727**	**1,386**	**1,533**	**16,760**	**328**	**48,946**
Credit at performing credit rating	14,567	5,304	5,064	1,624	1,297	1,435	15,965	301	45,557
Credit other than at performing credit rating and non-problematic	379	659	118	18	16	16	480	3	1,689
Accruing problematic credit	241	58	105	21	15	12	315	9	776
Non-accruing credit	434	132	151	64	58	70	-	15	924
Individuals – residential mortgages – total	**36,595**	**35,002**	**22,114**	**18,776**	**15,112**	**69,104**	**-**	**-**	**196,703**
LTV up to 60%	19,355	19,412	12,970	11,668	9,908	49,990	-	-	123,303
LTV from 60% to 75%	17,000	15,316	9,011	6,916	5,100	17,395	-	-	70,738
LTV over 75%	240	274	133	192	104	1,719	-	-	2,662
Credit at performing credit rating, not in arrears	36,404	34,658	21,713	18,374	14,663	67,688	-	-	193,500
Credit not at performing credit rating, not in arrears	65	130	124	103	107	291	-	-	820
In arrears 30-89 days	98	150	182	111	156	357	-	-	1,054
Non-accruing credit	28	64	95	188	186	768	-	-	1,329
Individuals, other – total	**9,136**	**4,490**	**2,248**	**1,765**	**1,053**	**1,164**	**6,602**	**77**	**26,535**
Credit at performing credit rating, not in arrears	8,994	4,392	2,197	1,719	1,015	1,114	6,505	72	26,008
Credit not at performing credit rating, not in arrears	71	61	37	38	35	44	36	3	325
In arrears 30-89 days	37	18	2	3	1	3	39	-	103
In arrears over 90 days	12	9	5	3	1	1	13	-	44
Non-accruing credit	22	10	7	2	1	2	9	2	55
Total loans to the public – activity in Israel	**80,570**	**53,196**	**31,737**	**23,286**	**18,188**	**72,120**	**25,217**	**1,036**	**305,350**
Borrower activity overseas									
Total loans to the public – activity overseas	**2,291**	**699**	**516**	**436**	**407**	**657**	**-**	**-**	**5,006**
Non-problematic credit	2,285	685	498	436	407	656	-	-	4,967
Accruing problematic credit	-	10	18	-	-	-	-	-	28
Non-accruing credit	6	4	-	-	-	1	-	-	11
Total loans to the public	**82,861**	**53,895**	**32,253**	**23,722**	**18,595**	**72,777**	**25,217**	**1,036**	**310,356**

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts

	As of December 31, 2023					
	Balance of non-accruing debts for which a provision has been recognized[(1)(2)]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[(1)]	Total balance of non-accruing debts[(1)]	Contractual principal balance of non-accruing debts	Interest revenues recognized[(3)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	426	61	-	426	542	5
Commercial – other	790	287	84	874	1,198	12
Total commercial	**1,216**	**348**	**84**	**1,300**	**1,740**	**17**
Private individuals – residential mortgages	2,153	107	-	2,153	2,236	-
Private individuals – other	74	60	-	74	120	5
Total loans to the public – activity in Israel	**3,443**	**515**	**84**	**3,527**	**4,096**	**22**
Borrower activity overseas						
Total loans to the public – activity overseas	**166**	**27**	**-**	**166**	**238**	**-**
Total	**3,609**	**542**	**84**	**3,693**	**4,334**	**22**
Of which:						
Measured individually at present value of cash flows	1,034	317	76	1,110	1,580	
Measured individually at fair value of collateral	272	27	8	280	318	
Measured on group basis	2,303	198	-	2,303	2,436	

(1) Recorded debt balance.

(2) Debt balance net of accounting write-off, if made.

(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 166 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2023 amounted to NIS 2,970 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts – Continued

	As of December 31, 2022					
	Balance of non-accruing debts for which a provision has been recognized[(1)(2)]	Provision balance	Balance of non-accruing debts for which a provision has not been recognized[(1)]	Total balance of non-accruing debts[(1)]	Contractual principal balance of non-accruing debts	Interest revenues recognized[(3)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate	257	36	1	258	435	23
Commercial – other	907	162	17	924	1,196	11
Total commercial	**1,164**	**198**	**18**	**1,182**	**1,631**	**34**
Private individuals – residential mortgages	1,329	67	-	1,329	1,448	-
Private individuals – other	51	42	4	55	75	5
Total loans to the public – activity in Israel	**2,544**	**307**	**22**	**2,566**	**3,154**	**39**
Borrower activity overseas						
Total loans to the public – activity overseas	**11**	**1**	**-**	**11**	**67**	**-**
Total	**2,555**	**308**	**22**	**2,577**	**3,221**	**39**
Of which:						
Measured individually at present value of cash flows	1,077	191	9	1,086	1,601	
Measured individually at fair value of collateral	74	6	9	83	127	
Measured on group basis	1,404	111	4	1,408	1,493	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 134 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2022 amounted to NIS 2,697 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.A. Additional information about non-accruing debts – Continued

	As of December 31, 2021					
	Balance of non-accruing debts for which a provision has been recognized(1)(2)	Provision balance	Balance of non-accruing debts for which a provision has not been recognized(1)	Total balance of non-accruing debts(1)	Contractual principal balance of non-accruing debts	Interest revenues recognized(3)
Borrower activity in Israel						
Public – commercial						
Construction and real estate	221	19	40	261	367	3
Commercial – other	789	282	137	926	1,145	12
Total commercial	**1,010**	**301**	**177**	**1,187**	**1,512**	**15**
Private individuals – residential mortgages	-	-	-	-	-	-
Private individuals – other	36	17	20	56	105	18
Total loans to the public – activity in Israel	**1,046**	**318**	**197**	**1,243**	**1,617**	**33**
Borrower activity overseas						
Total loans to the public – activity overseas	**6**	**1**	**-**	**6**	**1**	**-**
Total	**1,052**	**319**	**197**	**1,249**	**1,618**	**33**
Of which:						
Measured individually at present value of cash flows	882	311	187	1,069	1,403	
Measured individually at fair value of collateral	158	1	10	168	215	
Measured on group basis	12	7	-	12	-	

(1) Recorded debt balance.
(2) Debt balance net of accounting write-off, if made.
(3) Interest revenues recognized in the reported period, with respect to average balance of non-accruing debt in the period when the debt was classified as non-accruing.

Had the non-accruing debt accrued interest in conformity with the original terms and conditions, the Bank would have recognized interest revenues amounting to NIS 117 million.

Additional information: Total average recorded debt balance for non-accruing debt in the year ended December 31, 2021 amounted to NIS 1,528 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt

	December 31, 2023				
	Recorded debt balance				
	Not accruing interest revenues	Accruing(1) in arrears 90 days or longer	Accruing(1) in arrears 30 to 89 days	Accruing(1) not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	25	-	-	7	32
Commercial – other	90	-	-	88	178
Total commercial	**115**	**-**	**-**	**95**	**210**
Private individuals – residential mortgages	47	-	-	-	47
Private individuals – other	38	-	1	21	60
Total loans to the public – activity in Israel	**200**	**-**	**1**	**116**	**317**
Borrower activity overseas					
Total loans to the public – activity overseas	**-**	**-**	**-**	**-**	**-**
Total	**200**	**-**	**1**	**116**	**317**

	December 31, 2022				
	Recorded debt balance				
	Not accruing interest revenues	Accruing(1) in arrears 90 days or longer	Accruing(1) in arrears 30 to 89 days	Accruing(1) not in arrears	Total
Borrower activity in Israel					
Public – commercial					
Construction and real estate	40	-	-	1	41
Commercial – other	133	-	-	17	150
Total commercial	**173**	**-**	**-**	**18**	**191**
Private individuals – residential mortgages	41	-	-	-	41
Private individuals – other	34	-	-	24	58
Total loans to the public – activity in Israel	**248**	**-**	**-**	**42**	**290**
Borrower activity overseas					
Total loans to the public – activity overseas	**-**	**-**	**-**	**-**	**-**
Total	**248**	**-**	**-**	**42**	**290**

(1) Accruing interest revenues.

As of December 31, 2023, debt subject to re-structuring of problematic debt, amounting to NIS 231 million, was classified as problematic debt (as of December 31, 2022: NIS 275 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.B. Additional information about debt subject to re-structuring of problematic debt – Continued

	December 31, 2023			December 31, 2022			December 31, 2021		
							Restructurings made		
	Number of contracts	Recorded debt balance before restruc-turing	Recorded debt balance after restruc-turing	Number of contracts	Recorded debt balance before restruc-turing	Recorded debt balance after restruc-turing	Number of contracts	Recorded debt balance before restruc-turing	Recorded debt balance after restruc-turing
Borrower activity in Israel									
Public – commercial									
Construction and real estate	63	5	5	72	18	13	55	25	25
Commercial – other	341	50	49	322	98	95	267	133	133
Total commercial	**404**	**55**	**54**	**394**	**116**	**108**	**322**	**158**	**158**
Private individuals – residential mortgages	28	8	8	88	11	11	-	-	-
Private individuals – other	829	35	35	1,034	34	33	934	27	27
Total loans to the public – activity in Israel	**1,261**	**98**	**97**	**1,516**	**161**	**152**	**1,256**	**185**	**185**
Borrower activity overseas									
Total loans to the public – activity overseas	-	-	-	-	-	-	-	-	-
Total	**1,261**	**98**	**97**	**1,516**	**161**	**152**	**1,256**	**185**	**185**

	December 31, 2023		December 31, 2022		December 31, 2021	
	Restructurings made which are in default[(1)]					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate	6	-	16	-	19	10
Commercial – other	64	4	75	10	77	3
Total commercial	**70**	**4**	**91**	**10**	**96**	**13**
Private individuals – residential mortgages	8	2	32	3	-	-
Private individuals – other	143	-	309	3	298	2
Total loans to the public – activity in Israel	**221**	**6**	**432**	**16**	**394**	**15**
Borrower activity overseas						
Total loans to the public – activity overseas	-	-	-	-		
Total	**221**	**6**	**432**	**16**	**394**	**15**

(1) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Loans to the public

2.C. Additional information about non-accruing credit in arrears

	Not in arrears 90 days or longer	In arrears 90 to 180 days	In arrears 180 days to 1 year	In arrears over 1 year to 3 years	In arrears over 3 years to 5 years	In arrears over 5 years to 7 years	In arrears over 7 years	Total
As of December 31, 2023								
Commercial	615	178	383	257	15	8	10	1,466
Residential mortgages	457	689	580	329	42	18	38	2,153
Private individuals – other	42	12	5	11	4	-	-	74
Total	**1,114**	**879**	**968**	**597**	**61**	**26**	**48**	**3,693**
As of December 31, 2022								
Commercial	685	99	173	153	52	20	11	1,193
Residential mortgages	240	441	403	173	31	13	28	1,329
Private individuals – other	34	6	3	8	2	-	2	55
Total	**959**	**546**	**579**	**334**	**85**	**33**	**41**	**2,577**

3. Additional information about residential mortgages

Composition of balances by LTV[1], repayment type and interest type is as follows:

		As of December 31, 2023 (audited)			
		Balance of residential mortgages			**Off-balance sheet credit risk**
		Total	**Of which: Bullet / balloon**	**Of which: Variable interest**	**Total**
Senior lien: LTV	Up to 60%	124,553	3,953	75,701	2,771
	Over 60%	81,632	1,175	50,383	2,545
Junior lien or no lien		472	8	304	6,789
Total		**206,657**	**5,136**	**126,388**	**12,105**

		As of December 31, 2022 (audited)			
		Total	**Of which: Bullet / balloon**	**Of which: Variable interest**	**Total**
Senior lien: LTV	Up to 60%	122,818	3,510	77,040	3,012
	Over 60%	73,537	836	46,908	3,009
Junior lien or no lien		485	3	327	5,401
Total		**196,840**	**4,349**	**124,275**	**11,422**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk

Loan ceiling and credit risk (NIS in thousands)		December 31, 2023 Number of Borrowers[1]	Credit[2]	Off-balance sheet credit risk[3]
	Up to 10	265,096	388	547
Above 10	Up to 20	122,858	768	1,115
Above 20	Up to 40	162,959	2,223	2,667
Above 40	Up to 80	181,869	6,011	4,657
Above 80	Up to 150	137,414	11,345	4,081
Above 150	Up to 300	123,979	23,845	3,300
Above 300	Up to 600	105,720	44,343	2,517
Above 600	Up to 1,200	104,117	82,489	5,593
Above 1200	Up to 2,000	35,704	47,393	5,801
Above 2,000	Up to 4,000	12,723	27,914	5,569
Above 4000	Up to 8,000	2,731	11,461	3,104
Above 8000	Up to 20,000	1,147	10,013	3,848
Above 20000	Up to 40,000	417	7,766	3,549
Above 40000	Up to 200,000	474	24,334	14,957
Above 200000	Up to 400,000	82	11,618	9,806
Above 400000	Up to 800,000	42	10,151	12,198
Above 800000	Up to 1,200,000	10	3,769	5,105
Above 1200000	Up to 1,600,000	6	2,181	6,040
Over 1,600,000	Up to 1,904,000	1	1,403	501
Total		**1,257,349**	**329,415**	**94,955**

Loan ceiling and credit risk (NIS in thousands)		December 31, 2022 Number of Borrowers[1]	Credit[2]	Off-balance sheet credit risk[3]
	Up to 10	274,270	390	513
Above 10	Up to 20	121,540	779	1,051
Above 20	Up to 40	164,021	2,338	2,509
Above 40	Up to 80	180,251	6,107	4,316
Above 80	Up to 150	135,756	11,234	3,773
Above 150	Up to 300	120,517	22,836	3,188
Above 300	Up to 600	104,165	42,229	3,358
Above 600	Up to 1,200	105,731	83,210	7,139
Above 1200	Up to 2,000	33,822	44,858	5,686
Above 2,000	Up to 4,000	10,676	24,369	3,895
Above 4000	Up to 8,000	2,453	10,494	2,520
Above 8000	Up to 20,000	1,125	9,975	3,469
Above 20000	Up to 40,000	398	7,380	3,364
Above 40000	Up to 200,000	456	22,430	15,431
Above 200000	Up to 400,000	73	11,053	7,599
Above 400000	Up to 800,000	29	7,553	7,482
Above 800000	Up to 1,200,000	5	2,020	2,421
Above 1200.000	Up to 1,406,000	2	1,101	1,508
Total		**1,255,290**	**310,356**	**79,222**

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

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

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

	December 31, 2023							
	Credit risk to the public sold					Credit risk to the public purchased[1]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year[2]	Of which: Proble-matic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purch-ased during the year[3]	Off-balance sheet credit risk purch-ased during the year[2]	Of which: Proble-matic credit
Commercial	25	120	-	-	-	89	22	-
Private individuals – residential mortgages	-	-	-	-	5,097	-	-	-
Private individuals – other	-	-	-	-	-	2,554	-	-
Total credit risk to public	**25**	**120**	**-**	**-**	**5,097**	**2,643**	**22**	**-**

	December 31, 2022							
	Credit risk to the public sold					Credit risk to the public purchased[1]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year[2]	Of which: Proble-matic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purch-ased during the year[3]	Off-balance sheet credit risk purch-ased during the year[2]	Of which: Proble-matic credit
Commercial	3	50	-	-	-	191	-	-
Private individuals – residential mortgages	1,899	-	-	-	5,720	-	-	-
Private individuals – other	1	-	-	8	-	2,115	-	-
Total credit risk to public	**1,903**	**50**	**-**	**8**	**5,720**	**2,306**	**-**	**-**

(1) Excluding short-term factoring transactions.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.
(3) Of which: Loans at 10% which are seller-guaranteed loans (for credit risk).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Syndications and participation in loan syndications

	December 31, 2023					
	Syndication transactions initiated by the Bank				Syndication transactions initiated by others	
					Balance as of end of year	
	Bank's share		Others' share		Bank's share[2]	
	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]
Construction and real estate	1,898	1,808	1,650	5,898	628	71
Commercial – other	3,573	1,777	8,401	1,781	2,051	873
Total credit risk to public	**5,471**	**3,585**	**10,051**	**7,679**	**2,679**	**944**

	December 31, 2022[3]					
	Syndication transactions initiated by the Bank				Syndication transactions initiated by others	
					Balance as of end of year	
	Bank's share		Others share		Bank's share[2]	
	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]	Loans to the public	Off-balance sheet credit risk[1]
Construction and real estate	1,820	1,017	1,884	1,114	572	108
Commercial – other	3,159	1,518	7,728	1,557	1,499	553
Total credit risk to public	**4,979**	**2,535**	**9,612**	**2,671**	**2,071**	**661**

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of borrower indebtedness, except for derivatives.

(2) Excludes Bank share with respect to syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 412 million on-balance sheet credit and NIS 152 million off-balance sheet credit (as of December 31, 2022: NIS 478 million on-balance sheet credit and NIS 142 million off-balance sheet credit).

(3) Restated.

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31			
	2023	2022	2023	2022
	Balance[1]	Balance[1]	Provision for credit losses	Provision for credit losses
Transactions in which the balance represents a credit risk:				
Unutilized debitory account and other credit facilities in accounts				
On-call, un-utilized	31,625	21,772	33	23
Guarantees to home buyers	14,612	19,069	2	10
Irrevocable commitments for loans approved but not yet granted[2]	24,815	21,029	44	35
Unutilized revolving credit card facilities	12,416	11,730	18	11
Commitments to issue guarantees	12,514	8,122	3	2
Guarantees and other liabilities[3]	13,541	12,881	65	101
Loan guarantees	3,445	3,531	34	36
Documentary credit	540	315	2	2

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.
(2) Includes effect of extension of approval in principle for residential mortgages, from 12 to 24 days, pursuant to update to Proper Conduct of Banking Business Directive 451 regarding "Procedures for extending residential mortgages".
(3) Includes the Bank's liabilities for its share in the MAOF Clearinghouse risk fund, amounting to NIS 24 million (as of December 31, 2022: NIS 70 million).

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2023

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	59,254	-	27,020	175	101	-	86,550
Securities	12,980	4,330	4,623	520	-	618	23,071
Securities borrowed or bought in conjunction with resale agreements	106	-	-	-	-	-	106
Loans to the public, net[3]	226,844	80,674	10,485	4,394	2,949	-	325,346
Loans to Governments	1	-	111	368	-	-	480
Investments in associated companies	35	-	-	-	-	207	242
Buildings and equipment	-	-	-	-	-	1,531	1,531
Intangible assets and goodwill	-	-	-	-	-	148	148
Assets with respect to derivatives	4,252	99	1,268	572	91	-	6,282
Other assets	2,833	327	485	10	22	771	4,448
Total assets	**306,305**	**85,430**	**43,992**	**6,039**	**3,163**	**3,275**	**448,204**
Liabilities							
Deposits from the public	267,198	23,468	58,024	6,535	3,328	-	358,553
Deposits from banks	2,802	-	1,553	198	18	-	4,571
Deposits from the Government	10	2	56	3	-	-	71
Bonds and subordinated notes	7,675	27,203	2,192	-	-	-	37,070
Liabilities with respect to derivatives	5,666	111	912	564	114	-	7,367
Other liabilities	8,285	2,613	308	9	37	617	11,869
Total liabilities	**291,636**	**53,397**	**63,045**	**7,309**	**3,497**	**617**	**419,501**
Difference	**14,669**	**32,033**	**(19,053)**	**(1,270)**	**(334)**	**2,658**	**28,703**
Impact of hedging derivatives:							
Derivative instruments (other than options)	812	(812)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(19,430)	(766)	19,061	899	236	-	-
Net in-the-money options (in terms of underlying asset)	40	-	(252)	216	(4)	-	-
Net out-of-the-money options (in terms of underlying asset)	(127)	-	62	64	1	-	-
Grand total	**(4,036)**	**30,455**	**(182)**	**(91)**	**(101)**	**2,658**	**28,703**
Net in-the-money options (capitalized par value)	(652)	-	605	51	(4)	-	-
Net out-of-the-money options (capitalized par value)	683	-	(976)	221	72	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 31 – Assets and Liabilities by Linkage Basis – continued

As of December 31, 2022

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	75,216	-	17,624	490	343	-	93,673
Securities	6,645	2,498	4,935	414	-	652	15,144
Securities borrowed or bought in conjunction with resale agreements	269	46	-	-	-	-	315
Loans to the public, net[3]	215,424	76,228	8,733	4,687	2,400	-	307,472
Loans to Governments	7	-	198	113	-	-	318
Investments in associated companies	35	-	-	-	-	92	127
Buildings and equipment	-	-	-	-	-	1,503	1,503
Intangible assets and goodwill	-	-	-	-	-	178	178
Assets with respect to derivatives	1,595	115	3,025	825	229	-	5,789
Other assets	2,307	255	301	8	30	872	3,773
Total assets	**301,498**	**79,142**	**34,816**	**6,537**	**3,002**	**3,297**	**428,292**
Liabilities							
Deposits from the public	260,411	21,767	53,475	5,916	2,945	-	344,514
Deposits from banks	5,050	-	1,454	176	314	-	6,994
Deposits from the Government	31	2	14	-	-	-	47
Bonds and subordinated notes	5,442	25,718	2,127	-	-	-	33,287
Liabilities with respect to derivatives	1,638	164	2,642	590	180	-	5,214
Other liabilities	9,237	2,852	228	1	66	984	13,368
Total liabilities	**281,809**	**50,503**	**59,940**	**6,683**	**3,505**	**984**	**403,424**
Difference	**19,689**	**28,639**	**(25,124)**	**(146)**	**(503)**	**2,313**	**24,868**
Impact of hedging derivatives:							
Derivative instruments (other than options)	1,264	(1,264)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivative instruments (other than options)	(24,013)	(594)	24,129	(54)	532	-	-
Net in-the-money options (in terms of underlying asset)	(1,183)	-	1,115	122	(54)	-	-
Net out-of-the-money options (in terms of underlying asset)	(36)	-	41	40	(45)	-	-
Grand total	**(4,279)**	**26,781**	**161**	**(38)**	**(70)**	**2,313**	**24,868**
Net in-the-money options (capitalized par value)	(1,856)	-	1,825	20	11	-	-
Net out-of-the-money options (capitalized par value)	1,853	-	(1,756)	(79)	(18)	-	-

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted pro-rata from the different linkage bases.

Note 32 – Assets and liabilities by currency and by term to maturity[1]

Reported amounts (NIS in millions)

	Expected contractual future cash flows					-
	On-call to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years-
As of December 31, 2023						-
Israeli currency (including linked to foreign currency)						-
Assets	[3]86,273	19,046	50,269	37,916	28,573	25,301-
Liabilities	165,216	90,648	70,535	7,092	403	464-
Difference	**(78,943)**	**(71,602)**	**(20,266)**	**30,824**	**28,170**	**24,837**-
Futures transactions	(10,153)	(11,962)	2,309	(574)	(738)	21-
Options	81	(167)	102	(10)	17	- -
Difference after effect of derivative instruments	**(89,015)**	**(83,731)**	**(17,855)**	**30,240**	**27,449**	**24,858**-
Foreign currency						-
Assets	32,461	1,798	3,439	2,341	1,965	1,649-
Liabilities	36,824	13,323	20,469	837	2,393	125-
Difference	**(4,363)**	**(11,525)**	**(17,030)**	**1,504**	**(428)**	**1,524**-
Of which: Difference in USD	3,944	(6,396)	(12,105)	(27)	(2,017)	60-
Of which: Difference with respect to foreign operations	21,695	(2,948)	(2,104)	1,409	1,213	818-
Futures transactions	10,153	11,962	(2,309)	574	738	(21)-
Options	(81)	167	(102)	10	(17)	- -
Difference after effect of derivative instruments	**5,709**	**604**	**(19,441)**	**2,088**	**293**	**1,503**-
Total						-
Assets	118,734	20,844	53,708	40,257	30,538	26,950-
Liabilities	202,040	103,971	91,004	7,929	2,796	589-
Difference	**(83,306)**	**(83,127)**	**(37,296)**	**32,328**	**27,742**	**26,361**-
Of which: Loans to the public	27,508	15,394	46,687	37,862	27,815	25,235-
Of which: Deposits from the public	182,405	93,622	74,163	6,872	1,322	245-
						-
As of December 31, 2022						-
Assets	[3]116,322	16,455	49,067	38,891	30,079	24,510-
Liabilities	204,491	81,961	65,861	19,883	6,607	5,217-
Difference	**(88,169)**	**(65,506)**	**(16,794)**	**19,008**	**23,472**	**19,293**-

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 1.116 million and NIS 694 million as of December 31, 2023 and 2022, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 2,678 million and NIS 3,835 million as of December 31, 2023 and 2022, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 198 million and NIS 266 million as of December 31, 2023 and 2022, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

-						Balance sheet balance		
-	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	Contractual rate of return[4]
-								
-								
-	23,516	94,655	124,188	52,210	541,947	[2]1,973	395,640	5.56%
-	7,159	7,986	793	1,723	352,019	294	345,296	2.12%
-	**16,357**	**86,669**	**123,395**	**50,487**	**189,928**	**1,679**	**50,344**	
-	19	33	(39)	-	(21,084)	-	(21,085)	
-	-	-	-	-	23	-	22	
-	**16,376**	**86,702**	**123,356**	**50,487**	**168,867**	**1,679**	**29,281**	
-								
-	2,003	4,438	1,677	851	52,622	53	49,289	3.75%
-	82	169	124	91	74,437	94	73,588	4.79%
-	**1,921**	**4,269**	**1,553**	**760**	**(21,815)**	**(41)**	**(24,299)**	
-	(15)	196	2	-	(16,358)	-	(19,176)	
-	1,449	1,639	263	(1)	23,433	(1)	22,122	
-	(19)	(33)	39	-	21,084	-	21,085	
-	-	-	-	-	(23)	-	(22)	
-	**1,902**	**4,236**	**1,592**	**760**	**(754)**	**(41)**	**(3,236)**	
-								
-	25,519	99,093	125,865	53,061	594,569	2,026	444,929	5.48%
-	7,241	8,155	917	1,814	426,456	388	418,884	2.31%
-	**18,278**	**90,938**	**124,948**	**51,247**	**168,113**	**1,638**	**26,045**	
-	22,973	90,249	123,050	51,965	468,738	1,336	325,346	5.36%
-	1,733	708	643	-	361,713	-	358,553	3.13%
-								
-	23,478	84,289	112,357	47,544	542,992	[2]1,560	424,995	4.81%
-	6,119	14,549	2,824	741	408,253	324	402,440	2.01%
-	**17,359**	**69,740**	**109,533**	**46,803**	**134,739**	**1,236**	**22,555**	

Note 33 – Balances and estimates of fair value of financial instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.
The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.

The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.
Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.
The early repayment assumptions resulted in a NIS 985 million increase in total fair value of assets, and in a NIS 66 million increase in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as bonds and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to the Bank, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For bonds and subordinated notes traded as an asset on an active market, fair value is based on quoted market prices or on trader quotes for identical liabilities traded on an active market.

C. Negotiable securities, see Note 1. E.6 to the financial statements.

D. Investments in corporations for which a market value cannot be quoted and options where shares of such corporations are the underlying asset, are not included in this Note at their fair value but rather at cost, (net of impairment) adjusted for observed price changes in standard transactions in similar or identical investments for the same issuer. The cost, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated

These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar customer (for residential mortgages – a rate which reflects the risk associated with the category).

F. Non-accruing debts – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of non-accruing debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.

a decrease by 1% in the discount rate affects the fair value of non-accruing debt of the Group by NIS 18 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivative instruments – see Note 1. E.16 the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivative instruments and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	December 31, 2023				
		Fair value			
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	86,550	36,486	48,012	2,008	86,506
Securities[(3)]	23,071	17,708	4,905	326	22,939
Securities borrowed or purchased in resale agreements	106	106	-	-	106
Loans to the public, net	325,346	2,379	9,097	[(5)]308,150	319,626
Loans to Governments	480	-	-	480	480
Investments in associated companies	242	-	-	242	242
Assets with respect to derivatives	6,282	481	5,173	[(2)]628	6,282
Other financial assets	1,325	7	-	1,318	1,325
Total financial assets	**[(4)]443,402**	**57,167**	**67,187**	**313,152**	**437,506**
Financial liabilities					
Deposits from the public	358,553	8,483	92,576	256,795	357,854
Deposits from banks	4,571	-	1,084	3,467	4,551
Deposits from the Government	71	-	-	69	69
Bonds and subordinated notes	37,070	33,157	-	2,234	35,391
Liabilities with respect to derivatives	7,367	469	6,242	[(2)]656	7,367
Other financial liabilities	7,832	1,682	1,791	4,354	7,827
Total financial liabilities	**[(4)]415,464**	**43,791**	**101,693**	**267,575**	**413,059**

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 98,789 million and NIS 117,458 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 16 million.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

					December 31, 2022
					Fair value
	Book balance	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	93,673	24,826	64,637	4,206	93,669
Securities[(3)]	15,144	10,607	4,018	367	14,992
Securities borrowed or purchased in resale agreements	315	315	-	-	315
Loans to the public, net	307,472	1,917	8,619	[(5)]289,942	300,478
Loans to Governments	318	-	-	315	315
Investments in associated companies	127	-	-	127	127
Assets with respect to derivatives	5,789	640	4,742	[(2)]407	5,789
Other financial assets	772	7	-	577	584
Total financial assets	**[(4)]423,610**	**38,312**	**82,016**	**295,941**	**416,269**
Financial liabilities					
Deposits from the public	344,514	2,657	110,551	[(5)]228,119	341,327
Deposits from banks	6,994	-	298	6,675	6,973
Deposits from the Government	47	-	-	45	45
Bonds and subordinated notes	33,287	28,794	-	2,676	31,470
Liabilities with respect to derivatives	5,214	625	4,148	[(2)]441	5,214
Other financial liabilities	8,641	1,145	1,982	5,324	8,451
Total financial liabilities	**[(4)]398,697**	**33,221**	**116,979**	**243,280**	**393,480**

(1) Level 1 – Fair value measurement using quoted prices on an active market; Level 2 – Fair value measurement using other significant observed data; Level 3 – Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 102,730 million and NIS 129,830 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net and in deposits from the public, amounting to NIS 9 million and NIS 7 million, respectively.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	December 31, 2023			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	4,818	4,320	-	9,138
Of foreign governments	310	-	-	310
Of banks and financial institutions in Israel	373	65	-	438
Of banks and financial institutions overseas	2	249	-	251
Asset-backed (ABS)	-	56	-	56
Of others in Israel	861	114	-	975
Of others overseas	196	7	2	205
Shares not held for trading	228	52	24	304
Securities held for trading:				
Bonds of the Government of Israel	7,111	39	-	7,150
Bonds of overseas governments	273	-	-	273
Bonds of financial institutions in Israel	4	-	-	4
Bonds of others in Israel	23	-	-	23
Bonds of foreign others	27	3	-	30
Shares held for trading	16	-	-	16
Securities borrowed or purchased in resale agreements	106	-	-	106
Credit with respect to loans to customers	2,379	-	-	2,379
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	51	58	109
Other	-	1,867	2	1,869
Currency contracts	57	3,164	567	3,788
Contracts for shares	421	91	1	513
Commodities and other contracts	3	-	-	3
Other financial assets	7	-	-	7
Other	-	-	16	16
Total assets	**17,215**	**10,078**	**670**	**27,963**
Liabilities				
Deposits with respect to borrowing from customers	8,483	-	-	8,483
Securities borrowed or purchased in resale agreements	-	-	-	-
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	87	25	112
Other	-	1,462	48	1,510
Currency contracts	45	4,600	583	5,228
Contracts for shares	421	91	-	512
Commodities and other contracts	3	2	-	5
Other financial liabilities	1,682	-	-	1,682
Other	-	-	-	-
Total liabilities	**10,634**	**6,242**	**656**	**17,532**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	December 31, 2022			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Bonds available for sale				
Bonds:				
of Government of Israel	1,593	3,356	-	4,949
Of foreign governments	1,330	-	-	1,330
Of banks and financial institutions in Israel	374	9	-	383
Of banks and financial institutions overseas	10	252	-	262
Asset-backed (ABS)	-	55	-	55
Of others in Israel	680	147	11	838
Of others overseas	205	9	3	217
Shares not held for trading	220	63	23	306
Securities held for trading:				
Bonds of the Government of Israel	2,749	-	-	2,749
Bonds of overseas governments	-	127	-	127
Bonds of financial institutions in Israel	1	-	-	1
Bonds of others in Israel	25	-	-	25
Bonds of foreign others	42	-	-	42
Shares held for trading	20	-	-	20
Securities borrowed or purchased in resale agreements	315	-	-	315
Credit with respect to loans to customers	1,917	-	-	1,917
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	60	56	116
Other	-	1,998	3	2,001
Currency contracts	59	2,632	307	2,998
Contracts for shares	577	52	39	668
Commodities and other contracts	4	-	2	6
Other financial assets	7	-	-	7
Other	-	-	9	9
Total assets	**10,128**	**8,760**	**453**	**19,341**
Liabilities				
Deposits with respect to borrowing from customers	2,657	-	-	2,657
Securities borrowed or purchased in resale agreements	-	-	-	-
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	103	61	164
Other	-	1,539	64	1,603
Currency contracts	45	2,430	233	2,708
Contracts for shares	576	66	83	725
Commodities and other contracts	4	10	-	14
Other financial liabilities	1,145	-	-	1,145
Other	-	-	7	7
Total liabilities	**4,427**	**4,148**	**448**	**9,023**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	December 31, 2023				For the year ended December 31, 2023
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Non-accruing credit whose collection is contingent on collateral	-	-	280	280	(46)
Investments in shares for which no fair value is available	-	-	298	298	21

	December 31, 2022				For the year ended December 31, 2022
	Fair value				
	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total	Gains (losses)
Non-accruing credit whose collection is contingent on collateral	-	-	83	83	(8)
Investments in shares for which no fair value is available	-	-	326	326	32

(1) Level 1 – Fair value measurements using quoted prices on an active market.
Level 2 – Fair value measurements using other significant observed data.
Level 3 – Fair value measurements using significant non-observed data.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2023									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2022	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[3]	Tran-sfers from Level 3[3]	Fair value as of December 31, 2023	Unrealized gains (losses) with respect to instruments held as of December 31, 2023
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	-	-	-	-	-	-	-	-	-	-
Of others in Israel	11	8	(6)	-	(2)	(11)	-	-	-	(1)
Of others overseas	3	-	-	-	-	(2)	1	-	2	-
Shares not held for trading	23	1	-	-	-	-	-	-	24	1
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	56	7	-	7	-	(27)	42	(27)	58	54
Other	3	2	-	61	-	(4)	-	(60)	2	48
Currency contracts	307	261	-	1,007	-	(937)	-	(71)	567	417
Contracts for shares	39	(10)	-	16	-	(44)	-	-	1	-
Commodities and other contracts	2	(2)	-	-	-	-	-	-	-	-
Other	9	7	-	-	-	-	-	-	16	-
Total assets	**453**	**274**	**(6)**	**1,091**	**(2)**	**(1,025)**	**43**	**(158)**	**670**	**519**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	61	11	-	4	-	(77)	45	(19)	25	(27)
Other	64	-	-	67	-	(7)	-	(76)	48	(75)
Currency contracts	233	803	-	1,180	-	(1,422)	-	(211)	583	(712)
Contracts for shares	83	(4)	-	6	-	(85)	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-
Other	7	(7)	-	-	-	-	-	-	-	-
Total liabilities	**448**	**803**	**-**	**1,257**	**-**	**(1,591)**	**45**	**(306)**	**656**	**(814)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2022									
		Net realized / unrealized gains (losses) included[1]								
	Fair value as of December 31, 2021	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3[3]	Tran-sfers from Level 3[3]	Fair value as of December 31, 2022	Unrealized gains (losses) with respect to instruments held as of December 31, 2022
Assets										
Securities available for sale										
Bonds:										
Of foreign financial institutions	26	3	-	-	(3)	-	-	(26)	-	-
Of others in Israel	19	4	-	-	-	(4)	-	(8)	11	3
Of others overseas	12	-	-	-	-	(9)	-	-	3	-
Shares not held for trading	15	2	-	6	-	-	-	-	23	(2)
Assets with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	39	9	-	9	-	(19)	18	-	56	23
Other	78	(109)	-	37	-	(3)	-	-	3	2
Currency contracts	718	116	-	1,952	-	(2,475)	(1)	(3)	307	162
Contracts for shares	423	52	-	35	-	(471)	-	-	39	-
Commodities and other contracts	2	-	-	-	-	-	-	-	2	-
Other	7	3	-	-	-	-	(1)	-	9	-
Total assets	**1,339**	**80**	**-**	**2,039**	**(3)**	**(2,981)**	**16**	**(37)**	**453**	**188**
Liabilities										
Liabilities with respect to derivatives[2]										
Interest contracts:										
NIS / CPI	46	30	-	5	-	(54)	34	-	61	(2)
Other	117	(58)	-	7	-	(2)	-	-	64	(66)
Currency contracts	665	517	-	1,151	-	(2,100)	-	-	233	(99)
Contracts for shares	12	50	-	149	-	(128)	-	-	83	-
Other	-	10	-	-	-	-	(3)	-	7	-
Total liabilities	**840**	**549**	**-**	**1,312**	**-**	**(2,284)**	**31**	**-**	**448**	**(167)**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed. Transfers from Level 3 result from the opposite situation.

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of December 31, 2023	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	24	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	-	Cash flows discounting	Price		
Bonds of others in Israel	-	NAV (Net Asset Value) model	Price		
Bonds of foreign others	2	Cash flows discounting	Price	1.31-62.10	10.51
Assets with respect to derivative instruments:					
NIS / CPI	24	Cash flows discounting	Inflationary expectations	3.05%-2.37%	2.72%
Contracts for shares	4	Options pricing model	Standard deviation per share	145.27% - 48.45%	72.06%
Other	616	Cash flows discounting	Counter-party credit quality	2.60%-1.80%	1.84%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	24	Cash flows discounting	Inflationary expectations	3.05%-2.55%	2.82%
Other	632	Cash flows discounting	Counter-party credit quality	1.80%-2.50%	1.83%

	Fair value as of December 31, 2022	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	23	Quote from counter-party to the transaction			
Securities available for sale					
Bonds of others in Israel	11	NAV (Net Asset Value) model	Price	63.5	63.5
Bonds of foreign others	3	Cash flows discounting	Price	15.00-72.25	24.25
Assets with respect to derivative instruments:					
NIS / CPI	23	Cash flows discounting	Inflationary expectations	2.72%-2.36%	2.61%
Other	393	Cash flows discounting	Counter-party credit quality	3.10%-0.30%	2.19%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	60	Cash flows discounting	Inflationary expectations	2.72%-2.36%	2.55%
Other	388	Cash flows discounting	Counter-party credit quality	0.30%-3.60%	1.84%

Note 33 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

E. Information regarding uncertainty of fair value measurements to changes in unobserved data

The main valuation technique of significant unobserved data used in measurement of fair value of assets and liabilities at Level 3 is Discounted Cash Flow. The future cash flows for the instrument is derived from the agreement with the counter-party. The discount rate used to discount the cash flow reflects the Bank's assumptions.

The primary unobserved data used in measurement of fair value of bonds is the price of the bonds.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain bonds would be recorded to profit and loss, with bonds classified under the portfolio held for trading, although they had not been purchased for this purpose.

The election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of December 31, 2023 and December 31, 2022, the Bank did not elect the fair value option.

For more information see Notes 2D, 3A.2, 3B And 12(4).

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2023									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Officers(4)		Others(5)		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)
Assets										
Securities	-	-	-	-	49	53	-	-	-	-
Loans to the public	-	-	16	18	222	357	-	-	-	-
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Loans to the public, net	-	-	16	18	222	357	-	-	-	-
Investment in associated companies	-	-	-	-	-	-	-	-	242	242
Liabilities	-	-	-	-	-	-	-	-	-	-
Deposits from the public	56	56	46	46	1,200	1,992	-	-	-	-
Shares (included in shareholders' equity)(2)	11,374	11,374	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments(3)	-	-	1	1	188	188	-	-	-	-

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's shareholders' equity.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

	As of December 31, 2022									
	Interested parties								Related parties owned by the banking corporation	
-	Controlling shareholders		Officers(4)		Others(5)		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
-	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)	Balance as of balance sheet date	Highest balance during the year(1)
-										
-	-	-	-	-	61	65	-	-	-	-
-	24	44	46	48	305	384	-	-	-	-
-	-	1	-	-	1	4	-	-	-	-
-	24	43	46	48	304	380	-	-	-	-
-	-	-	-	-	-	-	-	-	127	127
-	-	-	-	-	-	-	-	-	-	-
-	50	50	32	33	2,028	2,028	-	-	-	-
-	9,885	9,885	-	-	-	-	-	-	-	-
-	3	3	8	10	263	398	-	-	-	-

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31			
	2023			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
Net interest revenues from loans to the public	-	1	8	-
Interest expenses for deposits from the public	(1)	(1)	(55)	-
Total interest revenues (expenses), net	**(1)**	**-**	**(47)**	**-**
Net non-interest financing revenues	-	-	(39)	-
Operating and other expenses	-	(50)	-	-
Total	**(1)**	**(50)**	**(86)**	**-**

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31			
	2023			
	Officers[1]		Others[2]	
	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
Interested party employed by or on behalf of the corporation	45	15	-	-
Board member not employed by or on behalf of the corporation	5	9	-	-
Other interested party not employed by or on behalf of the corporation	-	-	-	-

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights, or may appoint 25% or more of their Board members.

-								
-	2022				2021			
-	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
-	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
-	1	1	12	-	1	1	16	-
-	(1)	(1)	(11)	-	(1)	(1)	(1)	-
-	**-**	**-**	**1**	**-**	**-**	**-**	**15**	**-**
-	-	(1)	(5)	-	-	-	38	-
-	-	(46)	-	-	-	(43)	-	-
-	**-**	**(47)**	**(4)**	**-**	**-**	**(43)**	**53**	**-**

-								
-	2022				2021			
-	Officers[1]		Others[2]		Officers[1]		Others[2]	
-	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
-	39	14	-	-	37	14	-	-
-	7	9	-	-	6	11	-	-
-	-	-	-	-	-	-	-	-

Note 35 – Other matters

Acquisition of Union Bank

As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet. For more information about acquisition of Union Bank and valuation of assets and liabilities, see Note 35 to the 2020 financial statements.

On August 1, 2022, the process of merging Union Bank insurance agencies with and into Tefahot Insurance Agency Ltd. of Bank Mizrahi Tefahot Group was concluded.

On January 15, 2023, the merger of Union Systems Ltd. with and into the Mizrahi Tefahot Technology Division Ltd. (a Bank Group company) was completed.

On December 29, 2022, the merger of Union Bank with and into the Bank was completed. Upon completion of the merger, Union Bank ceased to exist as a separate legal entity, and all its assets and obligations have been assigned to the Bank.

Note 36 – Events after the balance sheet date

On March 11, 2024, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 209.4 million, or 20% of earnings in the fourth quarter of 2023, given the state of uncertainty in the economy regarding, inter alia, the continued war and the extent of its effects, and so as to enable further assistance to Bank customers, including by way of extending credit to customers with repayment capacity and further to the Supervisor of Banks' letter on this matter, dated March 5, 2024.

The dividends are 811.08% of issued share capital, i.e. NIS 0.8111 per NIS 0.1 par value share. The effective date for dividends payment is March 19, 2024 and the payment date is March 28, 2024. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2024.

Note 37 – Condensed financial statements of the Bank(1)

A. Statement of profit and loss

Reported amounts (NIS in millions)

	2023	2022	2021
Interest revenues	22,698	15,058	9,216
Interest expenses	12,117	6,273	3,014
Interest revenues, net	10,581	8,785	6,202
Expenses (revenues) with respect to credit losses	1,330	654	(207)
Interest revenues, net after expenses with respect to credit losses	**9,251**	**8,131**	**6,409**
Non-interest revenues			
Non-interest financing revenues	472	673	184
Commissions	1,759	1,670	1,437
Other revenues	245	402	284
Total non-interest revenues	**2,476**	**2,745**	**1,905**
Operating and other expenses			
Payroll and associated expenses	3,132	3,295	2,748
Maintenance and depreciation of buildings and equipment	979	803	738
Other expenses	652	586	449
Total operating and other expenses	**4,763**	**4,684**	**3,935**
Pre-tax profit	6,964	6,192	4,379
Provision for taxes on profit	2,438	2,168	1,517
After-tax profit	**4,526**	**4,024**	**2,862**
Share in profits of investee companies, after tax	384	448	326
Net profit	**4,910**	**4,472**	**3,188**

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il >> About the Bank >> Investor Relations >> Financial Information

Note 37 – Condensed financial statements of the Bank – Continued

B. Balance sheet

Reported amounts (NIS in millions)

	2023	2022
Assets		
Cash and deposits with banks	80,876	89,604
Securities(1)	19,165	12,406
Securities borrowed or purchased in resale agreements	106	315
Loans to the public	315,914	297,204
Provision for credit losses	(3,859)	(2,752)
Loans to the public, net	312,055	294,452
Loans to Governments	480	318
Investments in investee companies	5,139	4,758
Buildings and equipment	1,339	1,308
Intangible assets and goodwill	60	91
Assets with respect to derivatives	6,282	5,789
Other assets	3,841	3,204
Total assets	**429,343**	**412,245**
Liabilities and Equity		
Deposits from the public	360,694	344,150
Deposits from banks	21,040	24,405
Deposits from the Government	63	31
Bonds and subordinated notes	2,427	2,708
Liabilities with respect to derivatives	7,367	5,214
Other liabilities (2)	10,291	11,957
Total liabilities	**401,882**	**388,465**
Capital	**27,461**	**23,780**
Total liabilities and equity	**429,343**	**412,245**

(1) Of which: NIS 18,498 million recognized on the financial statements at fair value (on December 31, 2022: NIS 11,176 million).
(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 200 million (on December 31, 2022: NIS 219 million).

Note 37 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows

Reported amounts (NIS in millions)

	2023	2022	2021
Cash Flows from Current Activity			
Net profit before attribution to non-controlling interests	4,910	4,472	3,188
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(384)	(448)	(326)
Depreciation of buildings and equipment (including impairment)	363	233	220
Expenses with respect to credit losses	1,330	654	(207)
Gain from sale of securities available for sale and shares not held for trading	105	53	(27)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	9	(86)	17
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(7)	22	(38)
Gain from sale of buildings and equipment	-	(127)	(18)
Impairment of securities held for sale and shares not held for trading	15	42	9
Expenses arising from share-based payment transactions	57	45	41
Deferred taxes, net	(159)	(360)	58
Change in employees' provisions and liabilities	(190)	473	30
Adjustments with respect to exchange rate differentials	(181)	(463)	32
Gain from sale of loan portfolios	-	-	-
Accrual differences included with investment and financing operations	(2,510)	(561)	285
Net change in current assets			
Assets with respect to derivatives	(488)	(2,459)	343
Securities held for trading	(832)	(485)	80
Other assets, net	(216)	1,281	197
Net change in current liabilities			
Liabilities with respect to derivatives	2,153	1,967	(1,072)
Other liabilities	(1,503)	(791)	(202)
Net cash provided by current operations	**2,472**	**3,462**	**2,610**

Note 37 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows – Continued

Reported amounts (NIS in millions)

	2023	2022	2021
Cash flows from investment activities			
Net change in deposits with banks	3	1	2
Net change in loans to the public	(15,437)	(53,047)	(31,613)
Net change in loans to Governments	(162)	159	136
Net change in securities loaned or acquired in resale agreements	209	97	(218)
Acquisition of bonds held to maturity	(15)	(52)	(634)
Proceeds from redemption of bonds held to maturity	273	-	-
Purchase of securities available for sale and shares not held for trading	(10,195)	(13,830)	(8,531)
Proceeds from sale of securities available for sale and shares not held for trading	7,872	11,608	2,873
Proceeds from redemption of securities available for sale	1,331	58	3,106
Proceeds from sale of loan portfolios	-	1,934	234
Purchase of loan portfolios – public	(2,643)	(2,306)	-
Purchase of loan portfolios – Government	-	-	-
Acquisition of buildings and equipment	(394)	(339)	(285)
Proceeds from sale of buildings and equipment	-	201	35
Purchase of shares in associated companies	(15)	(61)	(49)
Proceeds from realized investment in associated companies	-	8	-
Other	-	791	-
Net cash used in investment activities	**(19,173)**	**(54,778)**	**(34,944)**
Cash flows provided by financing operations			
Net change in deposits from the public	12,835	58,491	42,525
Net change in deposits from banks	(3,365)	(368)	5,538
Net change in deposits from Government	32	(41)	5
Issuance of bonds and subordinated notes	-	-	1,955
Redemption of bonds and subordinated notes	(317)	(2,273)	(3)
Dividends paid to shareholders	(1,390)	(941)	(1,236)
Net cash provided by financing operations	**7,795**	**54,868**	**48,784**
Increase (decrease) in cash	(8,906)	3,552	16,450
Cash balance at beginning of the period	89,601	85,586	69,168
Effect of changes in exchange rate on cash balances	181	463	(32)
Cash balance at end of the period	**80,876**	**89,601**	**85,586**
Interest and taxes paid / received			
Interest received	20,749	11,135	9,822
Interest paid	9,460	4,821	2,244
Dividends received	9	8	5
Income taxes received	-	106	-
Income taxes paid	1	2,012	1,445
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	-	-	-
Sales of buildings and equipment	-	-	1
Shares issued in conjunction with acquisition of Union Bank	-	-	-

Bank Mizrahi Tefahot

Corporate governance, audit, other information about the Bank and its management

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Corporate governance and audit

Board of Directors and management

Board of Directors

During 2023, the Bank's Board of Directors held 19 plenary meetings. During this period there were also 58 meetings of Board committees and 18 Board member workshops.

The permanent Board committees are: Audit, Credit, Risks Management, IT and Technology Innovation and Remuneration.

Presented below are changes during 2023 and through publication of these financial statements:

- Mr. Eli Alroy started his term in office as member of the Credit Committee on January 1, 2023.
- On December 20, 2023, the General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman as Chairman of the Board of Directors of the Bank for an additional term through June 15, 2024. For more information see Immediate Report by the Bank dated December 20, 2023 (reference no. 2023-01-138630).

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman	
Chairman of the Board of Directors	Credit Committee – Chairman; Risks Management Committee – Chairman; IT and Technology Innovation Committee.
Eli Alroy	IT and Technology Innovation Committee; Credit Committee (as from January 1, 2023).
Ron Gazit	IT and Technology Innovation Committee, Credit Committee
Estheri Giloz-Ran	Audit Committee, IT and Technology Innovation Committee, Remuneration Committee
Avraham Zeldman(1)	Audit Committee, Risks Management Committee.
Hannah Fayer	Remuneration Committee – Chairman, Audit Committee, Credit Committee
Joseph Fellus	Audit Committee – Chairman, Credit Committee, Risks Management Committee; Remuneration Committee.
Jonathan Kaplan	Credit Committee, Risks Management Committee, IT and Technology Innovation Committee.
Ilan Kremer	Risks Management Committee
Gilad Rabinobich	IT and Technology Innovation Committee – Chairman, Audit Committee, Risks Management Committee, Remuneration Committee.

(1) On February 12, 2024, the Bank reported that the Bank's Board of Directors resolved to appoint Mr. Avi Zeldman to be Chairman of the Board of Directors, effective as from June 16, 2024, after expiration of Moshe Vidman's term in office. This appointment is subject to approval by the Supervisor of Banks.

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least three directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 5 Board members having accounting and financial qualifications.
Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 8 Board members having accounting and financial qualifications: Messrs. Moshe Vidman, Estheri Giloz-Ran, Avraham Zeldman, Hannah Feuer, Joseph Fellus, Jonathan Kaplan, Ilan Kremer and Gilad Rabinobich.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26 on the Bank's 2023 Annual Report on the ISA MAGNA website.
The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and customer base.

Executive Management

Presented below are changes during 2023 and through publication of these financial statements:

On February 12, 2023, the Bank Board of Directors approved the recommendation by the Bank President & CEO, to appoint Ofer Hurwitz, who served as Bank Secretary and Head of the Bank Headquarters, to be Deputy CEO and Nanager, Risks Control Division, replacing Doron Klauzner who retired. Hanan Kikuzashvili, who served as Deputy Bank Secretary, was appointed Bank Secretary and Head of Bank Headquarters, replacing Ofer Hurwitz. Ms. Meital Harush, who served as Manager, LIVE and Direct Banking Sector, was appointed Deputy CEO and Manager, Human Capital and Resources Division, replacing Mr. Nissan Levi, who announced their wish to conclude their term in office.

The Board of Directors also approved the creation of two new sectors: Banking Operation Sector and Enterprise-Wide Projects Sector, whose managers were appointed part of Bank management. The Banking Operation Sector, to include inter alia the back-office operations, engineering and banking processes, clearing house and mortgage insurance agency, would be headed by Micha Argaman, who has been serving as Deputy Manager, Human Capital, Resources and Operations Division. The Enterprise-Wide Projects Sector, to be responsible *inter alia* for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies, would be headed by Tal Ben Ari, until recently VP and Manager, Finance Division of Union Bank.

The following are Executive Management Forum members as of December 31, 2023 with their title and position:

Moshe Lari	President & CEO
Menahem Aviv	Vice President, Manager, Financial Information & Reporting Division and Chief Accountant
Ofer Horvitz	Vice President, Manager, Risks Management Division and Chief risks officer (CRO)
Meital Haroush	Vice President and Manager, Human Capital, Resources and Operations Division
Galit Weizer	Chief Internal Auditor; Manager, Internal Audit Division
Ayala Hakim	Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Terry Yaskil	Vice President and Manager, Marketing, Advertising and Corporate Development Division
Ofir Morad	Vice President and Manager, Business Banking Division
Rachel Friedman	Vice President, Manager, Legal Division, Chief Legal Counsel
Adi Shachaf	Vice President, Manager, Finance Division and Chief Financial Officer (CFO)
Shevy Shemer	Vice President and Manager, Retail Division
Micha Argaman	Manager, Banking Operation sector.
Tal Ben Ari	Manager, Enterprise Projects Department
Chanan Kikuzashvili	Bank Secretary and Manager, Bank Headquarters
Benny Shoukroun	Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26A on the Bank's 2023 Annual Report on the ISA MAGNA website.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name:	Galit Weizer
Start of term in office:	July 2011
Education:	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience:	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Corporations Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Pursuant to provisions of Section 8 of the Internal Audit Law, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Israeli subsidiaries of Bank Mizrahi Tefahot, including Bank Yahav. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.

In conformity with Proper Conduct of Banking Business Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to internal audit, other than handling public complaints.

Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2023, the Internal Auditor is entitled to 12,297, 24,029 and 32,233 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2020, 2021 and 2022 Allotment Programs, respectively, as approved by the Mizrahi Tefahot Board of Directors.

The Internal Auditor is also entitled to up to 29,735 options to purchase such ordinary shares, in conformity with the 2023 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors assumes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office – unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

In 2023, Internal Audit work was based on a multi-annual audit plan focused on risk for a three-year period from which an annual work plan was derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.
In this regard, reference was made to fairness and to management of risks affected by macro-economic changes, as well as to changes that occurred during the war.

Considerations in determining the multi-annual audit plan
The multi-annual audit plan is based on mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

- The Bank's strategic plan and work plans.
- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan prepared by the Internal Auditor, is brought up for discussion by the Board of Directors' Audit Committee and sent to the Chairman of the Board of Directors and to the Bank President & CEO. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Consequently, the multi-annual internal audit work plan for 2023-2025 was approved by the Bank Board of Directors on February 12, 2023.

Considerations in determining the annual audit plan
In addition to the aforementioned considerations, used as a basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks, the Chairman of the Board of Directors and the Audit Committee. The Audit also refers to issues as requested by Bank management.
Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.
Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the Chairman of the Board of Directors and to the Bank President & CEO. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.
Accordingly, on February 12, 2023, the Board of Directors approved the annual Internal Audit work plan for 2023.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Yahav, for which a separate audit plan was submitted and approved in 2023 by the Bank Yahav Board of Directors.

In conformity with Proper Conduct of Banking Business Directives 306 and 307, in 2020 local Internal Auditor firms were appointed at Bank affiliates in London and Los Angeles. The work plans of local Internal Auditors are included in the work plan of the Internal Audit Division, discussed by the Audit Committee and approved by the Bank Board of directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2023, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	**Employees engaged in role of Ombudsman**	**Employees engaged in internal audit**
(1)53	(3)8	(2)3

(1) Includes 9 full-time positions for audit at Bank Yahav, including outsourcing equivalent to 6 full-time positions.

(2) Includes use of external service providers overseas.

(3) Includes one temporary position.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Law, 1992, Banking Regulations (Internal Audit), and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee are of the opinion that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, inter alia, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Summaries of all audit reports issued in the previous period are submitted to Audit Committee members once every quarter and to the Board of Directors plenum – once every six months. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

In July 2023, a report about the performance of the Internal Audit work plan for the first half of 2023 was distributed and was discussed by the Audit Committee on July 24, 2023. The summary report of Internal Audit in 2023 was distributed in January 2024 and discussed by the Audit Committee on February 5, 2024. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee are of the opinion that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are reasonable under the circumstances and would realize the objectives of internal audit.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2023: Salary amounting to NIS 1,283 thousand, bonuses amounting to NIS 679 thousand, social benefits amounting to NIS 309 thousand, share-based payment amounting to NIS 476 thousand and other benefits valued at NIS 113 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2023 amounted to NIS 2,860 thousand. The outstanding balance of loans at standard terms, as of the end of 2023, amounted to NIS 62 thousand. For more information about the officer remuneration policy, see Note 22.A.3 to the financial statements.

The Board of Directors assumes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees for the Group[(1)(2)(3)(4)]

NIS in thousands

	Consolidated		The Bank	
	2023	2022	2023	2022
For audit activities[(5)]:				
Independent auditors[(6)]	7,669	7,921	7,458	6,739
Other independent auditors	1,757	1,354	780	507
Total	**9,426**	**9,275**	**8,238**	**7,246**
For audit-related services:				
Independent auditors	876	637	876	637
Other independent auditors	-	-	-	-
For tax services[(7)]:				
Independent auditors	74	18	74	-
Other independent auditors	298	220	133	126
For other services[(6)(8)]:				
Independent auditors	3,050	3,737	3,050	3,517
Other independent auditors	480	447	192	-
Total	**4,778**	**5,059**	**4,325**	**4,280**
Total fees to independent auditors	**14,204**	**14,334**	**12,563**	**11,526**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.
(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.
(3) Includes fees paid and accrued.
(4) The Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.
(5) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.
(6) Includes other independent auditors in overseas branches.
(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.
(8) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

NIS in thousands

Details of remunerated party[1]		2023								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contributions[4]	Share-based payment[5]	Value of additional benefits[6]	Total[7]	Balance as of December 31, 2023	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	3,112	-	685	-	98	3,895	-	-	38
Moshe Lari[9]	President & CEO	3,127	-	711	573	140	4,551	807	9.1	20
Ofir Morad[11]	Vice President and Manager, Business Banking Division	1,272	597	354	664	110	2,997	1,830	5.5	318
Shevy Shemer[10]	Vice President and Manager, Retail Division	1,263	639	333	664	98	2,997	563	5.1	148
Terry Yaskil[11]	Vice-president, Manager, Marketing, Advertising and Business Development Division	1,257	507	475	664	94	2,997	-	-	48
Buskila Avshalom[12]	CEO, Bank Yahav Ltd.	1,132	565	1,520	152	30	3,399	-	-	-

Details of remunerated party[1]		2022								
		Remuneration for services rendered[2]						Loans granted at beneficial terms[3]		
Name	Role	Salary	Bonuses	Social benefit contributions[4]	Share-based payment[5]	Value of additional benefits[6]	Total[7]	Balance as of December 31, 2022	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[8]	Chairman of the Board of Directors	2,976	-	707	-	93	3,776	-	-	21
Moshe Lari[9]	President & CEO	2,990	-	714	512	135	4,351	824	9.6	20
Shevy Shemer[10]	Vice President and Manager, Retail Division	1,787	910	369	450	100	3,616	608	5.6	186
Ofir Morad[11]	Vice President and Manager, Business Banking Division	1,220	992	341	600	106	3,259	1,930	6.2	342
Ayala Hakim[11]	Manager, Mizrahi Tefahot Technology Division Ltd.	1,205	981	379	600	94	3,259	312	2.8	66

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements. On December 20, 2023, the General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman as Chairman of the Board of Directors of the Bank for an additional term through June 15, 2024. For more information see Immediate Report by the Bank dated December 20, 2023 (reference no. 2023-01-138630).

(9) Mr. Moshe Lari – On June 8, 2020, the Bank's Board of Directors approved the appointment of Mr. Moshe Lari as Bank President & CEO. Mr. Lari started their term in office as full-time Bank President & CEO on September 16, 2020. For more information about Mr. Lari's employment terms, see Appendix D to report dated August 27, 2020 (reference: 2020-01-085165) as well as Note 22.A.2 to the financial statements.

(10) Ms. Shevy Shemer – As from April 1, 2022, employed pursuant to an individual employment agreement for an unspecified term. Details of remuneration for 2022 includes NIS 1,433 thousand with respect to the period Ms. Shevy Shemer served as CEO of Union Bank, as follows: Salary: NIS 877 thousand; Bonuses: NIS 420 thousand; Social benefits: NIS 136 thousand.

(11) Officers employed pursuant to an individual employment agreement for an unspecified term:

Mr. Ofir Morad – Dated January 1, 2014.

Ms. Ayala Hakim – Dated July 1, 2013

Ms. Terry Yaskil – Since November 1, 2021.

For more information about employment terms, see Note 22.A.3 to the financial statements.

(12) Mr. Buskila Avshalom – As from July 1, 2023, Mr. Buskila serves as CEO of Bank Yahav Ltd. Prior to said date, Mr. Buskila served as Manager, Northern Region at Bank Mizrahi Tefahot Ltd. Remuneration for 2023 includes NIS 1,199 thousand with respect to the period served as Manager, Northern Region, as follows: Payroll amounting to NIS 435 thousand, social contributions amounting to NIS 582 thousand, share-based payment amounting to NIS 152 thousand and benefit value amounting to NIS 30 thousand.

Transactions with controlling shareholders and related parties

Pursuant to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Amendment"), the Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, for different transaction types as set forth below, which the Committee ratified on January 16, 2024.

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the criteria specified by the Audit Committee, is an immaterial transaction.

Banking transaction

Definition of "unusual transaction" – a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the criteria specified by the Audit Committee shall be deemed to be, for this matter, a "material transaction":

"Market terms" – terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest. Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Business Directive 312, with Bank customers who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with it; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply – as for Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Business Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

	December 31, 2023					
Group of controlling shareholders[(2)]	Credit balance	Investment in securities	Obligation to extend credit	Guarantees provided by the Bank	Derivatives inde-btedness	Total inde-btedness[(1)]
Below is information about indebtedness with respect to Ofer Group:						
Controlling shareholders and/or relatives thereof	-	-	-	-	-	-
Corporations controlled by controlling shareholders and/or relatives thereof:						
Ginergy Ltd.	-	-	3	-	-	3
OPC Energy Ltd.	-	3	100	11	-	114
O P C Holdings Israel Ltd.	101	-	26	13	-	140
ICL Group Ltd.	-	46	29	-	-	75
Corporations held by controlling shareholders and/or relatives thereof with no control:						
Groundwork Bioage Ltd.	7	-	-	-	-	7
OGY Documents Israel Ltd.	-	-	-	1	-	1
Total – Ofer Group	**108**	**49**	**158**	**25**	**-**	**340**
Below is information about indebtedness with respect to Wertheim Group:						
Controlling shareholders and/or relatives thereof	-	-	-	-	-	-
Corporations controlled by controlling shareholders and/or relatives thereof:						
Central Soft Drinks Manufacturing Company Ltd.	6	-	-	-	-	6
Mash Kar Ltd.	-	-	2	-	-	2
International Beer Breweries Ltd.	3	-	-	-	-	3
Free TV Plus Ltd.	35	-	-	-	-	35
Corporations held by controlling shareholders and/or relatives thereof with no control:						
RGI Group Ltd.	60	-	-	-	-	60
Cycle Cyclic Economy for Drink Containers Ltd.	-	-	1	2	-	3
Total – Wertheim Group	**104**	**-**	**3**	**2**	**-**	**109**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.
(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2023.

B. Indebtedness transactions – continued

Group of controlling shareholders[2]	Credit balance	Investment in securities	Obligation to extend credit	Guarantees provided by the Bank	Derivatives indebtedness	Total indebtedness[1]
	December 31, 2022					
Below is information about indebtedness with respect to Ofer Group:						
Controlling shareholders and/or relatives thereof	-	-	-	-	-	-
Corporations controlled by controlling shareholders and/or relatives thereof:						
OPC Energy Ltd.	-	2	105	33	1	141
Dead Sea Works Ltd.	-	-	4	-	-	4
ICL Group Ltd. (Chimikalim Le-Israel)	10	47	15	-	16	88
Rotem Amfert Negev Ltd.	-	-	4	-	-	4
Oil Refineries Ltd.	263	12	11	95	-	381
Corporations held by controlling shareholders and/or relatives thereof with no control:						
Groundwork Bioage Ltd.	9	-	-	-	-	9
OGY Documents Israel Ltd.	11	-	-	-	-	11
Total – Ofer Group	**293**	**61**	**139**	**128**	**17**	**638**
Below is information about indebtedness with respect to Wertheim Group:						
Controlling shareholders and/or relatives thereof	**-**	**-**	**-**	**-**	**-**	**-**
Corporations controlled by controlling shareholders and/or relatives thereof:						
Central Soft Drinks Manufacturing Company Ltd.	17	-	-	-	-	17
Mash Kar Ltd.	-	-	2	-	-	2
International Beer Breweries Ltd.	2	-	-	-	-	2
Free TV Plus Ltd.	5	-	-	-	-	5
Corporations held by controlling shareholders and/or relatives thereof with no control:						
Cycle Cyclic Economy for Drink Containers Ltd.	-	-	-	1	-	1
Total – Wertheim Group	**24**	**-**	**2**	**1**	**-**	**27**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.

(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2023.

C. Deposits

Group of controlling shareholders	Balance as of December 31, 2023	Highest balance in 2023
Below is information about deposits of Ofer Group:		
Controlling shareholders and/or relatives thereof	16	16
Corporations controlled by controlling shareholders and/or relatives thereof:		
OPC POWER VENTURES LP	3	260
ICG Energy Inc.	194	645
XT Shipping Ltd.	1	1
HL ICL Procurement (1998) Ltd.	-	82
Ginergy Ltd.	1	1
OPC Energy Ltd.	2	569
ICL Group Ltd.	-	1
Israel Corporation Ltd.	753	753
INTRACAP INSURANCE Ltd., Switzerland	71	115
Ramon International Insurance Brokers Ltd. London	-	6
Corporations held by controlling shareholders and/or relatives thereof with no control:		
Marine Education and Training Authority	1	1
Vayar Imaging Ltd.	9	9
Groundwork Bioage Ltd.	18	46
OGY Documents Israel Ltd.	8	25
Spin Prime Technologies Ltd.	-	1
Avenues GT Ltd.	-	2
Total – Ofer Group	**1,077**	**2,533**

Below is information about deposits of Wertheim Group:		
Controlling shareholders and/or relatives thereof	40	42
Corporations controlled by controlling shareholders and/or relatives thereof:		
Central Soft Drinks Manufacturing Company Ltd.	1	5
Mash Kar Ltd.	-	1
Country Floors Ltd.	3	3
Free TV Plus Ltd.	10	14
Keshet Holdings LP	71	71
Corporations held by controlling shareholders and/or relatives thereof with no control:		
RGI Group Ltd.	-	10
Quick Technologies and Investments Ltd.	16	16
Cycle Cyclic Economy for Drink Containers Ltd.	34	38
Total – Wertheim Group	**175**	**200**

C. Deposits – continued

Group of controlling shareholders	Balance as of December 31, 2022	Highest balance in 2022
Below is information about deposits of Ofer Group:		
Controlling shareholders and/or relatives thereof	12	11
Corporations controlled by controlling shareholders and/or relatives thereof:		
OPC POWER VENTURES LP	175	175
ICG Energy Inc.	2	11
HL ICL Procurement (1998) Ltd.	80	80
OPC Energy Ltd.	568	638
Ladingo Ltd.	-	2
Israel Corporation Ltd.	718	718
Oil Refineries Ltd.	212	212
INTRACAP INSURANCE Ltd., Switzerland	111	111
Ramon International Insurance Brokers Ltd. London	2	14
Corporations held by controlling shareholders and/or relatives thereof with no control:		
Marine Education and Training Authority	1	1
Groundwork Bioage Ltd.	49	58
OGY Documents Israel Ltd.	9	13
Avenues GT Ltd.	3	6
Total – Ofer Group	**1,942**	**2,050**

Below is information about deposits of Wertheim Group:		
Controlling shareholders and/or relatives thereof	41	40
Corporations controlled by controlling shareholders and/or relatives thereof:		
Central Soft Drinks Manufacturing Company Ltd.	27	362
Mash Kar Ltd.	-	1
International Beer Breweries Ltd.	-	10
Free TV Plus Ltd.	11	16
Keshet Holdings LP	40	71
Corporations held by controlling shareholders and/or relatives thereof with no control:		
RGI Group Ltd.	-	20
Quick Technologies and Investments Ltd.	15	50
Cycle Cyclic Economy for Drink Containers Ltd.	1	7
Total – Wertheim Group	**135**	**577**

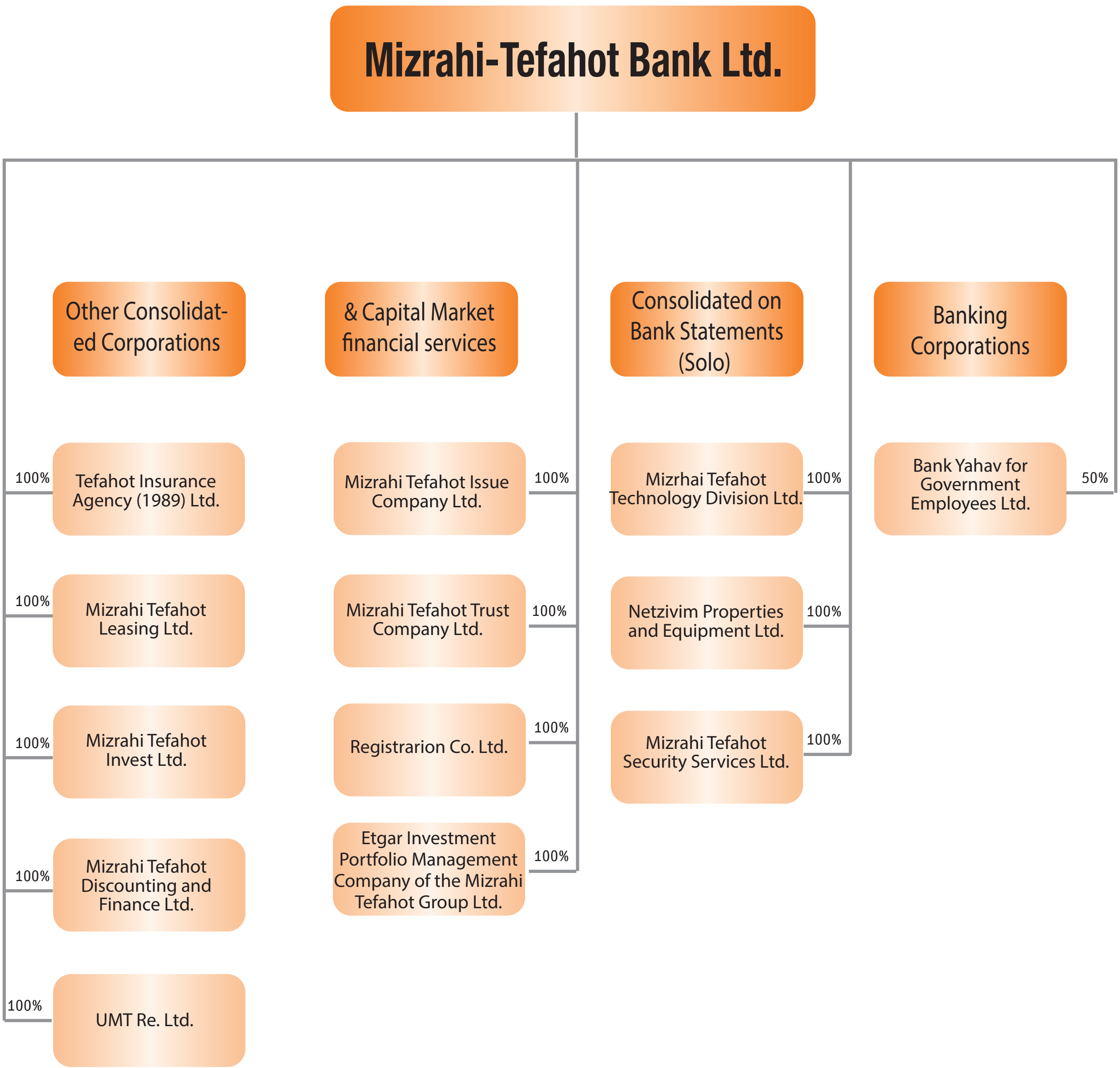
To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

On March 7, 2023, the Bank Board of Directors approved, after approval by the Remuneration Committee, contracting by the Bank of a Board member and officer liability insurance policy, for a term of 18 months as from April 1, 2023 pursuant to Regulation 1B1 and pursuant to Regulations 1A1 and 1B(a)(5) of the Corporate Regulations (Relief for transactions with interested parties), 2000.

This insurance policy covers, *inter alia*, the Bank President & CEO, controlling shareholders of the Bank and relatives thereof. For more information see Immediate Report dated March 13, 2023 (reference: 2023-01-026691).

Other information about the Bank and its management

Key holding structure of the Bank



For more information see Note 15 to the financial statements.

Controlling shareholders

The Controlling Shareholders of the Bank as of December 31, 2023 are Wertheim Group and Ofer Group.

Holdings of Wertheim Group are through M. W. Z. (Holdings) Ltd. And F&W (Registered Partnership) holding, as of December 31, 2023, 7.28% and 13.05%, respectively of capital and voting rights.

Holdings of Ofer Group are through L.I.N (Holdings) Ltd., which holds, directly and through L.A.B.M. (Holdings) Ltd. (a wholly-owned subsidiary thereof) as of December 31, 2023 21.11% of capital and voting rights in the Bank.

On June 18, 2023, L.I.N. (Holdings) Ltd. transferred to L.A.B.M. (Holdings) Ltd. 100,000 ordinary Bank Mizrahi Tefahot shares of NIS 0.1 par value each.

On February 19, 2024, L.I.N. (Holdings) Ltd. transferred to L.A.B.M. (Holdings) Ltd. 100,000 ordinary Bank Mizrahi Tefahot shares of NIS 0.1 par value each.

Note that the aforementioned share transfer was conducted between L.I.N. (Holdings) Ltd. and a wholly-owned subsidiary thereof, and does not change the overall holding stake of L.I.N. in Bank shares.

Shareholder agreements

L.A.B.M. (Holdings) Ltd. Of Ofer Group and Feinberg-Wertheim (Registered Partnership) of Wertheim Group are party to a cooperation agreement for exercising rights associated with Bank shares, dated October 6, 1994 (hereinafter: ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2023 amounts to NIS 659 million, compared to NIS 589 million at the end of 2022.

In conformity with the resolution by the Bank’s Board of Directors to relocate all units of Bank management to a single central site in Lod, in 2019 a project was approved for construction of the campus. In 2023, the project scope expansion was approved, as well as refurbishment and construction of additional buildings. Consequently, the project budget was set at NIS 682 million.

In 2023, skeleton construction work continued and a contractor was selected for finishing work.

Other than the foregoing, in 2024, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles).

For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

For more information about investments and expenses with respect to IT, see chapter Analysis of composition of assets, liabilities, capital and capital adequacy of the Report of the Board of Directors and Management.

Intangible assets

The Bank Group has data base entries of customers and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.

The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".

For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1 to the financial statements.

For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors).

The current organizational structure of the Bank is as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (Internet, telephone, SMS, fax and video chat). The division also includes the departments which provide financial and retirement advisory services offered to customers and operations of private banking, foreign residents and new immigrants. The Division is also responsible for the subsidiary, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. It is also responsible for the subsidiary Mizrahi Tefahot Leasing, involved in financial leasing and car loans.

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating four geographically-distributed business centers. The division also includes other units providing specialized services for customers in specific sectors: Construction and real estate sector, foreign trade sector and international operations, which also includes responsibility for international operations of the Group, as well as responsibility for overseas affiliates and the diamonds business center. The division also operates the special customer sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, Mizrahi Tefahot Invest which is responsible for real investments, the Information & Customer Service Sector which supports all financial market operations, providing Back Office services and provident fund operations, as well as the Financial Institution and Investor Relations sector. This division is also in charge of the capital market subsidiary, Mizrahi Tefahot Trust Company Ltd.

Technology Division – This division is a wholly-owned subsidiary of the Bank, in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Directive 357.

Risks Management Division – this division includes the various risks management departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk. As from February 1, 2024, the Risks Control Division was renamed the Risks Management Division.

Human Capital and Resources Division – this division includes management of human resources, training, logistics (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility.

Marketing, Advertising and Corporate Development Division – This division consolidates activities relating to advertising, marketing, responsibility for management of the customer experience, including setting service-related policy. The division is also tasked with business management and development of data resources at the Bank.

Financial Information and Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt. This division includes the Information, Analysis and Planning Department, which is responsible for supervision and control over Bank budget, control over subsidiaries, measuring profitability of branches and monitoring Bank work plans.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank, as well as being responsible for Bank insurance (including banking insurance and Board member and officer liability insurance).

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Banking Operation Sector – responsible *inter alia* for back-office operations, engineering and banking processes, clearing house and mortgage insurance agency. Established April 1, 2023.

Enterprise-Wide Projects Sector – responsible *inter alia* for the Bank's digital operations, further implementation and deployment of the new CRM system and collaboration with FinTech companies. Established April 1, 2023.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employee rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- Caring for employees' welfare – Employees' welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

	2023				
	In the bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Total for the Group
Number of full-time equivalent positions as of December 31, 2023	6,098	105	6,203	903	7,106
Number of full-time employees based on monthly average	6,144	98	6,242	906	7,148

	2022[1]				
	In the bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Total for the Group
Number of full-time equivalent positions as of December 31, 2022	6,431	90	6,521	1,002	7,523
Number of full-time employees based on monthly average	5,848	86	5,934	1,702	7,636

Below is the distribution of number of positions in the Group by operating segment[(1)(2)(3)]:

	As of December 31	
Operating segment	**2023**	**2022**
Households	4,210	4,407
Private banking	65	183
Small businesses	1,345	1,486
Commercial banking	349	359
Business banking	869	822
Financial management	268	266
Total	**7,106**	**7,523**

(1) Data through December 31, 2022 include 373 former Union Bank employees whose employment was terminated in early 2023.
(2) Composition is by operating segments based on management approach. For more information see Note 29 to the financial statements.
(3) Including Head Office employees that are allocated pro-rata to the various segments.

Cost of salary per employee position

	2023		2022	
	Excluding variable remuneration components	Including variable remuneration components	Excluding variable remuneration components	Including variable remuneration components
Salary per employee position	297	356	333	398
Cost of salary per employee position	425	493	456	527

Human resource management

Bank management regards all Bank employees and managers as a significant component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.

The Bank invests in development of Bank staff and management, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through training, mentoring and promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2023, the Training Center took part in strategic enterprise-wide campaigns inter alia through reinforcement and deployment of business skills and new support systems among bankers and continued deployment of the Bank's human service concept. Use of digital tools increased, and the mix of training methods was expanded – in-person or online training, in-person studying in groups, interactive aids, VOD library of training videos, podcasts, professional and managerial mentoring, games and so forth. The Training Center continues to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers, jointly with and assisted by the Training Center, lead organizational change and are responsible for employees' professional skills through mentoring and training.

The Training Center acts to develop Bank managers through managerial training, offered to them throughout their term in office, as well as management cadre tracks in preparation for their next managerial roles. In 2023, management training was delivered through: training and simulation, online presentations and podcasts. The Organizational Development and Training Division is applying diverse measures to develop intra-organizational communication channels. As well as conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year, as well as development targets for the coming year.

Training expenses in 2023 amounted to NIS 16 million, compared to NIS 15 million in 2022.

In 2023, all Group employees attended training (in-person and online), for a total of 40,452 training days, compared to 48,650 training days in 2022. The decrease is due to postponed training days in the final quarter of the year due to the war.

For more information about human resource management, see also the 2023 Corporate Governance Report on the Bank website: << www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees), which are expressed in employee organizations as follows:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employees' Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employees' Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav** – Bank Yahav employee representatives empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employees' Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On June 26, 2023, the Bank and Mizrahi Tefahot Employee Union signed a special collective bargaining agreement for 2022-2026. For details see Note 22 to the financial statements.

Highlights of this agreement regarding salary and bonuses are as follows:

- An additional NIS 1,000 was paid on top of each employee's monthly salary, as well as an additional NIS 200 for branch employees, for the period as from January 1, 2022. These amounts would be linked to the Consumer Price Index as from January 1, 2023.
- Additional pay to employees in certain roles, such as Team Leader and Authorized Signatory.
- The parties agreed that the base salary would be increased by 3% in each year between 2023-2024 and by 2% in each year between 2025-2026.
- Social benefit contributions were revised so as to expand the base salary for retirement contributions and, in addition, the base salary for contributions to study funds was made identical to that for retirement contributions.
- On September 1, 2023, the Bank paid a bonus to employees hired prior to January 1, 2022 (who are still employed by the Bank), whose amount equals two 13th monthly salaries; employees hired on or after January 1, 2022 (who are still employed by the Bank) paid a bonus equal to one 13th monthly salary.

Various understandings were reached to enhance the Bank's managerial flexibility and to promote excellence, especially 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. These include, *inter alia*:

- Increase in number of individual employment contracts at Bank headquarters.
- Potential individual award of pay increase to headquarters employees, subject to certain conditions.
- Extension of the trial period for a specified number of employees, up to 5 years.
- Option to reassign employees at the Bank's discretion.
- Option to terminate up to 70 employees, initiated by the Bank due to unsuitability of employees classified as making a low contribution, during the term of this agreement.
- Considering the expected transition of Bank headquarters employees to the new Bank campus in Lod, the parties agreed that work conditions (including with respect to employee welfare) in the new campus would be determined by the Bank exclusively, after consulting the employee union. The employee union shall have no claims whatsoever with respect to transition to the new campus.
- Full and complete labor relations would be maintained throughout the term of the agreement.

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.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On December 20, 2018, a collective bargaining agreement was concluded with the Managers' Council, with respect to wages and work conditions for 2018-2022. This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global over-time and expense reimbursement for car expenses, education and studies. This agreement also included a voluntary retirement program, increase in the number of individual employment contracts, as well as calm labor relations throughout the term of the agreement. As of December 31, 2023, the collective bargaining agreement on wages and employment terms with the Manager Council has yet to be renewed.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003, 2006 and 2018, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employees' Council, the Labor Union and the Technology Division over the years.

In June 2023, the Bank and the Labor Union signed an agreement. Due to existing collective bargaining agreements and the current linkage provisions for Technology Division employees, company management and the union of company employees started negotiating the implementation of the agreement signed at the Bank, *mutatis mutandis*, including the issue of Division relocation to the Bank campus in Lod.

Labor and payroll agreements at Bank Yahav

On June 29, 2023, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2023-2027.

Union Bank employee onboarding agreements

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.

Significant Agreements

A. Employment agreements signed with the Employees' Council, the Manager and Authorized Signatory Association and the Technology Division Employees' Committee and the former Union Bank Employees' Committee. For more information see chapter "Human Resources" above.

B. Amended letter of waiver and commitment to indemnification by the Bank. For more information see Note 26.C. (5-10) to the financial statements.

C. Agreements for co-issuing debit cards with the following: ICC Ltd., Diners Club Israel Ltd. (hereinafter: "ICC Group"), Isracard Ltd. and/or Europay (Eurocard) Israel Ltd., Poalim Express Ltd. of Isracard Group and Leumi Card Ltd. For more information see Note 26.C.14 to the financial statements.

D. Agreement between the Government of Israel and the Bank, for provision of loans from bank sources to eligible Ministry of Construction and Housing recipients and framework agreement between the Government of Israel and the Bank with regard to provision of loans to eligible recipients from State funds. For more information see chapter "Household segment" above.

Legislation and supervisory directives applicable to Bank Group operations

Laws and regulations

Banking Law (Customer Service) (Amendment no. 34) (Commission cap for housing loan application), 2022

The Law was made public on June 22, 2022, stipulating that a banking corporation may only charge a commission of up to NIS 360 for processing a housing loan application. The Law became effective on August 22, 2022. Bank management estimates that this Law should result in a non-material decrease in Bank revenues from such activity.

Banking Regulations (Licensing) (Bank with large-scale operations), 2023

On January 30, 2023, the Knesset Finance Committee approved Banking Regulations (Licensing) (Bank with large-scale operations), 2023, which *inter alia* revised the definition of a bank with large-scale operations, which now also applies to the Bank.

According to the Regulations, the Bank would be required to reduce credit card facilities by 25%, from January 31, 2027 through January 31, 2030, compared to the relevant facilities (facilities in excess of NIS 10,000) for credit cards in 2015. The Minister of Finance announced their intention to eliminate this restriction in the upcoming Arrangements Law.

Moreover, as from January 31, 2026, the share of new cards issued by a credit card issuer of a single bank may not exceed 52%. This is in effect for 3 years.

Postponement Law (Interim Directive – Iron Swords) (Contract, verdict or payment to an authority), 2023

On October 18, 2023, the Law was made public, whereby a postponement by up to 30 days ("the Postponement Period") is allowed for any charge pursuant to any contract or verdict, to anyone serving as a soldier, policeman, prison officer (under certain conditions) or fireman between October 7, 2023 and November 7, 2023 ("the Effective Period"), or to anyone who was during this period (or part thereof) missing, kidnapped or prisoner of war, or who resided in the Gaza border region, or who was hospitalized for one week or longer due to enemy action, or who worked / volunteered with any life saving organization. The Law authorizes extension of the Effective Period (up to December 31, 2023) and the Postponement Period.

On December 31, 2023 (after twice issuing an ordinance extending the periods), the Law was amended whereby the aforementioned effective period is from October 7, 2023 through December 31, 2023 and the potential postponement period is of 145 days or through February 29, 2024 (whichever is sooner).

Moreover, a second effective period was added (from January 1, 2024 through February 29, 2024), allowing for a 31 day postponement of a charge pursuant to a contract or verdict, to whoever was during this period –

- enrolled in basic / regular / reserve military service (called up under Directive 8), policeman, prison guard, fireman, missing person, kidnapped, POW, Israeli resident forced to leave their home (provided that each one meets the criteria stipulated there for);

- Spouse of any of the above, co-signatory to the charge with them, the estate of any of the above deceased, any company with up to 5 shareholders (where one of the above holds at least 50% of the controlling interest), registered partnership where one of the above takes part in management of its business and controls 50% or more of its assets.

Executive Order (E.O.) amending E.O. 14024

On December 22, 2023, the US issued Executive Order 14114, expanding the authority of the US Administration to directly impose secondary sanctions on foreign financial institutions with respect to the Russia-Ukraine War. Imposing such sanctions refers to conducting transactions involving certain sectors or goods. The Executive Order issued also included a guide for foreign financial institutions, which includes: Examples of activities that may make foreign financial institutions liable to sanctions, questions and answers on this matter and guidelines for minimizing the risk of sanctions being imposed. Sanctions that may be imposed on foreign financial institutions include the following: Prohibition or limitation of opening or managing a correspondent account in the USA and freezing of all assets and rights to assets located in the USA or held by US citizens, residents or corporations, and prohibition of certain transactions (such as transfer or payment).

Supervisor of Banks

Circulars and public reporting directives

Open Banking standard implementation in Israel

On February 24, 2020, the Bank of Israel issued a circular containing Proper Conduct of Banking Business Directive 368 "Implementation of Open Banking Standard". The circular describes the evolution of open banking around the world and the standards created, and elaborates legislation in Israel that has resulted in the Supervisor of Banks promoting the open banking project and issuing a directive in this regard. The directive includes instruction for implementation of the open banking standard, rules for quality of service and customer consent, and guidelines for information architecture and security. The directive applies to banks and credit card companies operating in Israel, with respect to individual accounts. The directive further stipulates instruction with respect to corporate governance, including responsibilities of the Board of Directors and senior management in setting policy, appropriate resource allocation and supervision of implementation of the management framework for open banking. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular in view of developments in the Corona Virus outbreak, with revised effective start dates for Proper Conduct of Banking Business Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

On April 5, 2021, the Bank of Israel issued a circular which delays by a few months the planned implementation, in order to allow for proper reference to various issues raised during preparations for implementation, due to the wish to establish the open banking system. Stage 2 was delayed to January 31, 2022 (from October 10, 2021) and stage 3 was delayed to May 31, 2022 (from March 31, 2022). This delay should allow the banking system to stabilize the services in the system, so that system availability would be robust and its services would provide a response for market demand.

On January 17, 2022, the Bank of Israel issued a circular regarding "Implementation of open banking standard in Israel", which updates the effective start dates of mandatory provision of access to information about customer activity in debit cards, and mandatory provision of access to the customer's checking account for payment initiation, as stipulated in the directive. The schedules for providing access to information about borrowing and deposits were aligned with those set forth in the Law. The effective start date for information about debit cards and payment initiation was revised to March 31, 2022, and the effective start date for information about credit, savings and deposits was revised to October 31, 2022.

On February 23, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending the directive to align it with provisions set forth in the Financial Information Service Law. The effective start date of the directive is the same as that of the Law. As from June 30, 2023, Chapter H of Proper Conduct of Banking Business Directive 367 would no longer apply to individual accounts, and would continue to apply for information summary services for corporate customers through December 31, 2024.

On May 15, 2022, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions with regard to prohibition of receiving benefits and adding Section 57b to the Directive, in conformity with the Supervisor's authority pursuant to the Financial Information Service Law, as well as amendments to the actual standard. The effective start date of Section 57b of the Directive is on the effective start date of the Financial Information Service Law (as of the date of this publication: June 14, 2022).

On July 24, 2022, the Bank of Israel issued a letter regarding implementation of the Financial Information Services Law and the Open Banking standard. The circular emphasizes that banking corporations are required to act as information sources, and in future - as financial information service providers, and to ensure that work processes include at least a policy on service level, implementation of controls for availability and response times, information integrity and quality, implementation of regulatory directives by an internal committee dedicated to this matter and conducting internal audit processes. The letter seeks to review the qualification processes and to ensure that any malfunctions with regard to service or availability are addressed within a reasonable time frame. The Bank is preparing to respond to and implement the directives in this letter.

On January 22, 2023, the Bank of Israel issued a circular regarding implementation of open banking standard in Israel, amending Directive 368 and stipulating provisions regarding, inter alia, provision of access to information about securities, service level, use of certificates and approval of operations as payment initiator. The effective start date of the amendments in the circular is the issue date of the circular, except for presentation of information about securities, which is June 14, 2023, and except for amendments regarding handling of malfunctions, response times and service level, which is June 30, 2023.

On February 9, 2023, the Bank of Israel issued a circular concerning reporting of open banking activity, amending Reporting Directive 868 "Reporting of open banking activity", so as to allow the Supervisor of Banks to monitor the nature and scope of open banking activity in Israel. The effective start date for this reporting directive is January 1, 2023, with relief as set forth in the circular.

The Bank is implementing the directives. Application of this directive has no material impact on the Bank's financial statements.

Risk Management

On February 26, 2023, the Bank of Israel issued a circular regarding risk management (Amendment to Proper Conduct of Banking Business Directive 310). This amendment concerns the involvement of banking corporations and counter parties in activities related to cryptographic assets; the approval process for new products now includes mandatory review of compliance of the new product with applicable requirements of laws and regulations. Definition of the term "Cryptographic asset" has been added, as well as mandatory reporting in writing to the Supervisor of Banks prior to launch of operations related to this asset class. The amendment applies as from the publication date thereof.

The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

On February 26, 2023, the Supervisor of Banks issued a letter regarding "Dealing in financial cryptographic assets", which lists the key risks arising from operations involving crypto and a requirement to apply the amendment to Directive 310 to such operations.

Opening a current account with balance in credit and account management

On March 26, 2023, the Bank of Israel issued a circular regarding Opening a current account with balance in credit (Amendment to Proper Conduct of Banking Business Directive 422). This amendment is intended to clarify the cases where a claim of "reasonable refusal" to open a current account with balance in credit and account management using basic payment services would not be acceptable. The scope of this directive was expanded to include management of current account with balance in debit not exceeding the approved credit facility, and expanded the basic payment services set forth in the Directive. The effective start date of the amendment in this circular is one year after publication thereof.

The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Management of customer service and support department

On March 26, 2023, the Bank of Israel issued a circular concerning management of customer service and support department (Proper Conduct of Banking Business Directive 501). This Directive is part of an extensive plan by the Supervisor of Banks to specify guidelines and standards for banking consumer relations, for fair conduct of banking corporations with their customers. This Directive provides guidelines for providing service and support to banking system customers, through various service channels, and stipulates obligations with regard to corporate governance and work processes of banking corporations, in order to promote an organizational culture that emphasizes quality and availability of customer service and support. In this regard, the banking corporation's Board of Directors and management are required to set strategy, policy, plans and work processes to ensure promotion of the banking corporation's compliance with the specified guidelines.

The effective start date of the directive in this circular is one year after publication thereof, except for some sections that would become effective on dates listed in the circular.

The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Interest risk in bank portfolio

On May 24, 2023, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 333 concerning "Interest risk in bank portfolio". The updated directive adopts the current document on interest risk in bank portfolio issued by the Basel Committee on Bank Supervision. The circular includes, *inter alia*, the following updates:

- Guidelines for interest risk management – The guidelines listed in the directive include, *inter alia*, corporate governance arrangements for risk management and risk monitoring, risk delineation, risk measurement both in terms of economic value and in terms of earnings, use of diverse scenarios, including stress tests, strict handling of instruments with behavioral options and of assumptions used in modelling thereof for risk estimation, management of risk in models for management of interest risk in bank portfolio, reporting to the Board of Directors and to senior management, as well as proper handling of risk under Pillar 2.
- The standard framework – The directive includes certain provisions with regard to measurement of interest risk in bank portfolio based on economic value of capital, and in particular with regard to measurement of cash flows.
- Calculation of interest shocks – The directive includes provisions for calculation of standard interest shocks for banks and settlement providers, to be adjusted for standard interest shocks in public disclosure requirements.

The effective start date of this directive is December 31, 2024. The Bank is preparing to implement the directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Effective management of climate-related financial risk

On June 12, 2023, the Bank of Israel issued a circular concerning guidelines for effective management of climate-related financial risk (Proper Conduct of Banking Business Directive 345). The directive stipulates guidelines which banking corporations must adhere to for optimal management of their exposure to climate-related financial risk. The directive requires disclosure of environmental risk to which the Bank is exposed, including climate risk, and description of how such risk is managed, in conformity with Public Reporting Directives.

The effective start date of the directive in this circular is two years after publication thereof. The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Distribution of credit cards issued by issuers who have signed a distribution agreement with a banking corporation

On June 29, 2023, the Bank of Israel issued a circular concerning distribution of credit cards issued by issuers who have signed a distribution agreement with a banking corporation (Proper Conduct of Banking Business Directive 473). Pursuant to provisions of Section 7F of the Banking Law (Customer Service), 1981, the directive stipulates that when a customer contacts a banking corporation seeking to enter into a credit card contract there with, or when a banking corporation contacts a customer proposing such contracting, the banking corporation must distribute the credit cards issued by issuers who have signed a distribution agreement there with. The directive stipulates provisions with regard to credit card distribution processes pursuant to Section 7.F of the Law.

The effective start date of the directive is as of the publication date thereof. Any distribution agreements signed prior to the effective start date of the directive would be adjusted by the parties within six months. The Bank is applying this directive. Application of this directive has no material impact on the Bank's financial statements.

Banking corporation business with related persons

On June 29, 2023, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 312 concerning "Banking corporation business with related persons". The updated directive includes, *inter alia*, the following changes:

- Relief for definition of Related Person for a banking corporation controlled by another banking corporation – In conformity with Section 3(F) of the directive, corporations in which the investment is not material and where the banking corporation has no control thereof, shall be excluded from definition of Related Person.
- CEO and Chairman of the Board of Directors of major investees – The directive stipulates that with regard to Related Person in Section 3(D1) regarding CEO and Chairman of the Board of Directors of major investees, out of all such companies – only companies classified as Subsidiary would be included.
- Committee on transactions with related persons – The updated directive expands the waiver, such that the Committee on transactions with related persons, or the Audit Committee, is exempt from mandatory discussion of all transaction types (and not only indebtedness transactions) conducted by the banking corporation with Bank Group companies in which the Bank holds 95% or more of the means of control, which do not extend credit nor

provide other services outside of the Bank Group, or those entirely engaged in issuance of bonds for Bank Group companies.

- Reporting to the Supervisor – The requirement to submit to the Supervisor a list of Related Persons of the banking corporation, indicating the indebtedness of each Related Person, in conformity with the reporting outline to the Supervisor, has been eliminated.

The effective start date of this circular is as of the publication date thereof.

The Bank is applying the circular. Application of this circular has no material impact on the Bank's financial statements.

Operations of a banking corporation as broker dealer

On July 19, 2023, the Bank of Israel issued a circular concerning operations of a banking corporation as broker dealer (Proper Conduct of Banking Business Directive 461). This directive is a comprehensive regulatory framework for financial brokerage operations of banking corporations in receiving and giving instructions to conduct transactions in securities on behalf of customers, both in their operations as brokers and by way of trading for their own account. The directive provides for various requirements of banking corporations, including the following: Setting policy on executing instructions, adjusting operations for the customer, qualification and suitability of employees involved in operations, code of conduct, documentation requirements, providing information to the customer and receiving information from the customer, as well as proper disclosure of any conflict of interest in case of remaining exposure after taking steps to minimize it, and control over operations.

The directive requires banking corporations to categorize customers and suitability of securities for their activity, including informing any existing qualified customers, other than financial institutions, of the option available to them to obtain one or more of the protections provides by this directive, through the effective start date of this directive – which is 18 months after publication thereof. The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Procedures for extending residential mortgages

On July 19, 2023, the Bank of Israel issued a circular regarding procedures for extending residential mortgages (amendment to Proper Conduct of Banking Business Directive 451). This amendment is designed to improve the process of early repayment of residential mortgages, including by way of re-financing from another corporation.

The effective start date of the amendment in this circular is one year after publication thereof.

The Bank is preparing to implement the directive. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Emphasis for the banking system due to the war

On October 12, 2023, the Supervisor of Banks issued a circular regarding emphasis for the banking system due to the war. In this publication, the Supervisor of Banks noted that the system should strive to continue providing professional services that are appropriate and continuous to its customers, and to manage all of the operational and financial risks specific to this period. Based on these targets, the banking system should comply with the following: Board discussions, relief and assistance to customers in meeting obligations, with emphasis on residents of areas under a state of emergency, IDF soldiers currently called up for service and their families, as well as small businesses that have closed or that operate in reduced capacity due to the current situation. Moreover, the banking system is required to increase monitoring of all risk, with regard to diverse aspects including those of capital, liquidity and credit, including adjustment to policy and models for even stricter stress scenarios, and review of the required liquidity level. Furthermore, review is required of appropriateness of risk management measures and tools, while bolstering the control, management and audit mechanisms in all key operations of the bank and credit card issuer. Moreover, the Supervisor of Banks has partially activated the reporting requirements under special circumstances, which help the Supervisor of Banks in analyzing the situation, making appropriate decisions and providing a response to public inquiries. The Supervisor of Banks also indicated that the banking system should prepare for increased attempts and cyber attacks against the system.

On October 15, 2023, a discussion took place headed by the Governor of the Bank of Israel and the Supervisor of Banks and attended by CEOs of the banks and credit card companies. Following this discussion, the Bank of Israel published an outline for assistance to bank customers in addressing the implications of the war. This outline consists of two circles. The first circle includes the following customer group: Those residing up to 30 kilometers from the Gaza Strip, those evacuated from their homes by an official entity, as of the issue date of this outline, those who are immediate relatives of those killed, kidnapped or missing in this war and those called up for reserve military duty and those called up under Directive 8. The second circle includes all other bank customers.

On October 18, 2023, November 9, 2023 and January 2, 2024, the Bank of Israel issued supervisory emphasis regarding handling of debt and public reporting. The key emphasis is as follows:

- For borrowers affected by the war, the Supervisor of Banks encourages banking corporations to act so as to allow flexibility in loan repayment for such borrowers.
- Debt in arrears – debt with no payments in arrears upon the outbreak of this war shall not be reported as debt in arrears if payments are not in arrears pursuant to revised terms and conditions of such debt. Otherwise, the status of arrears should be reset to what it was at the outbreak of this war and should be frozen for the duration of payment deferment.
- Problematic debts and accounting write-offs – the banking corporation should exercise discretion when classifying debt as problematic.
- Public disclosure – the banking corporation should provide disclosure for borrower debt affected by the war and subject to revised repayment arrangements, as noted above.
- Provision for credit losses – inclusion of the anticipated impact of Iron Swords War as of soon prior to publication of the financial statements, should the Bank have additional information about further anticipated impact of the war. The estimated provision would be adjusted for such additional information.
- Disclosure on the Report of the Board of Directors and Management – this should reflect the major effects of the war on the Bank with regard to results and risks.
- Credit risk disclosure on the Report of the Board of Directors and Management – this disclosure shall include material developments in credit risk by operating segment and by economic segment, highlighting sectors subject to increased risk due to the war.

On November 12, 2023, the Bank of Israel sent a letter to banking corporations regarding capital planning and dividend distribution policy, requesting them to review their dividend distribution policy and share buy-back in the coming period, and to advise the Supervisor of Banks of the outcome of such review.

On December 26, 2023, the Bank of Israel issued an expansion of the outline for assisting customers of banks and of credit card issuers in addressing the war. Based on assessments by the Bank of Israel and given that the war continues and impacts many customers from the economic aspect, the Bank of Israel announced the expansion of this outline, adopted by the banks, including *inter alia* the following:

- Extending validity of the current outline by a further three months, through March 31, 2024, for two demographics in first group and in the second group.
- Added demographics in the first group – the first group would also include accounts of those kidnapped or missing, accounts of siblings of those kidnapped or missing and accounts of those who took part at the NOVA party in Re'im.
- With regard to deferred payments on consumer and business loans:
    - Customers who had not deferred payments pursuant to the outline would be entitled to defer payments for three months, subject to filing an application.
    - Customers who had already deferred payments for three months would be entitled to defer payments for a further three months, subject to filing an application, for a total maximum deferment period of six months.

Adjustments to Proper Conduct of Banking Business Directives for addressing the war (Interim Directive)

Due to the war started on October 7, 2023 and its implications for the Israeli economy, and in order to assist the banking system and its customers to address this challenging situation, the Supervisor of Banks issued a range of relief measures included in this interim directive.

Proper Conduct of Business Banking Directive 251 – the adjustments to this directive are designed to allow banks and credit card companies the business flexibility required at this time, in order to provide relief to customers affected by the state of war. This interim directive shall be revised from time to time as required. The steps taken include adjustments to addressing public complaints, management of credit facilities in checking accounts, adjustments regarding E-banking due to the many customers called up for reserve military service or required to evacuate their homes, extension of the period allowed for providing financial data and currency of financial reports, relief in conducting rotations and contiguous time off, extension of dates in procedures for extending residential mortgages, relief on limitations on extending residential mortgages, management of AML and terror financing risk and so forth.

On December 20, 2023, the Supervisor of Banks issued relief with regard to the leverage ration (Proper Conduct of Banking Business Directive 218), such that relief provided in Interim Directive 250 was included in Directive 218 and was extended through December 31, 2025.

Proper Conduct of Banking Business Directive 203 regarding "Measurement and capital adequacy – standard approach – credit risk" – it has been clarified that increase in LTV above 80% for loans designated for land purchase for development or construction, due to interest accrued through December 31, 2023 due to any grace period granted after October 7, 2023 would not be accounted for in LTV calculation.

Interest risk in bank portfolio

On December 20, 2023, the Bank of Israel issued a circular regarding interest risk in the banking portfolio (Proper Conduct of Banking Business Directive 333). The Directive stipulates principles, requiring the banking corporation to manage interest risk in the banking portfolio, and requiring positive action be taken to identify, measure, monitor, control and provide disclosure with respect to such risk. The new directive supersedes the existing one. The amendments to the directive pursuant to this circular are effective as from July 1, 2025. The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Opening a current account with credit balance for financial institutions

On December 24, 2023 the Bank of Israel issued a circular regarding Opening a current account with credit balance for financial institutions (Proper Conduct of Banking Business Directive 424). This directive stipulates the requirements applicable to the banking corporation in the course of opening and managing an account for non-banking financial service providers. The directive includes mandatory reporting to the Supervisor in case of refusal to open an account, in conformity with Supervisory Reporting Directive 824. The Bank is preparing to implement the directive. Application of this directive has no material impact on the Bank's financial statements.

Bank's credit rating

On August 1, 2023, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank ratings unchanged. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On October 31, 2023, S&P Global Ratings Maalot Ltd. (hereinafter: "Ma'alot") revised the Bank's rating outlook from Stable to Negative. At the same time, the agency confirmed the Bank's issuer rating of ilAAA. The change in the Bank's rating outlook is further to the change in rating outlook of the State of Israel, due to the war, reflecting the probability of this war having a material negative effect on the Israeli economy.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- by Maalot.

On October 31, 2023, rating agency S&P Global Ratings (hereinafter: "S&P") lowered the Bank's rating outlook from Stable to Negative. At the same time, the agency confirmed the long-term issuer credit rating of A- and the short-term issuer credit rating of A-2. Moreover, the agency confirmed the BBB- rating of contingent subordinated notes with loss-absorption provisions which qualify as Tier II equity, issued by the Bank on April 7, 2021 by international private placement to institutional investors.

On December 13, 2023, rating agency Fitch Ratings (hereinafter: "Fitch") kept the Bank's rating under Negative Watchlist, which has been in effect since October 19, 2023, further to similar action taking with regard to Israel's debt rating. The Bank's long-term IDR is A, and the Bank's short-term IDR is F1+. The rating of CoCo notes is BBB.

On February 9, 2024, Moody's rating agency lowered the credit rating for Israel from A1 to A2, due to concern about implications of the war in Gaza and military escalation in the North. The rating outlook was also lowered, to Negative. Further to its decision to lower the rating for the State of Israel, on February 13, 2024 Moody's announced it was lowering the credit rating of the top 5 banks in Israel, to A3 / Negative outlook. In October 2024, Fitch placed Israel's credit rating under Negative Watchlist, and S&P assigned a Negative rating outlook for Israel. Consequently, these decisions also apply to the Bank's rating. S&P gives Israel the highest rating of the three agencies, still at AA-.

Operating segments – Additional information

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the customer's turnover (annual sales or annual revenues).

The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for business customers other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – residential mortgages and others", in conformity with definitions of credit risk classification by economic sector.

Below is brief description of supervisory operating segments:

Households – individuals, other than private banking customers, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million.

Institutional investors – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage customer portfolios, as defined by the Supervisor of Banks.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Overseas operations – the aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

The financial information on the Report of the Board of Directors and Management is included based on definitions of supervisory segments.

In addition, the financial statements include – in Note 29 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in customer attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- The Bank's operating segment using the "management approach" are based on customer assignment to the responsible organizational unit in the elapsed period. However, customer attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.
- The attributes specified by management for customer assignment to the responsible division are highly correlated with supervisory definitions.
- However, in some cases it may be that by the "management approach", the final assignment of the customer is based on other parameters, such as: specialization of a certain unit in activity types of customers or past

experience working with the customer, which result in business and service-related advantages to customer attribution to the specific division or being part of the same borrower group.

- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
- The difference in definitions is reflected in particular in these segments:
  - Individual customers with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
  - Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Business customers, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
  - Business customers and individual customers at overseas branches, classified under various operating segments based on the management approach, are classified under the overseas activity segment in disclosure of supervisory operating segments.

Exceptions for classification of business customers by turnover

According to the Bank of Israel Q&A File, the Bank classified business customers to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business customer, the customer is classified to the appropriate supervisory operating segment based on the customer's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business customer are not indicative of their total operations and the customer's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such customer to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the customer is typically classified as follows:

Small and micro businesses – total assets on customer balance sheet amount up to NIS 50 million.

Medium businesses – businesses where total assets on the customer balance sheet amount to between NIS 50 million and NIS 215 million.

Large businesses – businesses where total assets on the customer balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to customers in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the customer. For credit, expense set at original cost of capital raised (transfer cost) is attributed to customers, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified capital instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to customers, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the customer at the spread incorporated in the price of the derivative instrument quoted to the customer. Gains arising from changes to fair value of derivatives is attributed to Financial Management.
- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to customers for whom these expenses were recorded.
- Commissions and other revenues are specifically attributed to customers.

- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch customers using loading factors which reflect the customer operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to customers in non-retail operating segments.

  Intersegment settlement reflects the fact that branches also serve non-retail customers. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on customers based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above. In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to customers, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to customers.
- Fixed assets are attributed based on appropriate ratios.

Household Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework:
- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the customer's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, customers are not allowed to exceed their determined credit limit.
- **Investments**: Providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans**: General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing**: Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers. There is also financial leasing and car loan activity under the subsidiary Mizrahi Tefahot Leasing.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing customers to diversify risk.

Given the high Bank of Israel interest rate over the past 18 months, and the concern about increased inflation, the share of loans in variable, non-linked interest and fixed, non-linked interest tracks increased, as an alternative to the Prime and CPI-linked tracks.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to customers who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Residential Mortgages Law.

In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Discounted Apartment" program.
Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.
Bank revenues from all loans to eligible borrowers under State responsibility in 2023 amounted to NIS 12 million, compared to NIS 14 million in 2022 and to NIS 17 million in 2021.

Insurance marketing (insurance incidental to mortgages)

The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, the Bank may market life insurance and home insurance incidental to residential mortgages by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

In order to maintain the required separation between mortgage and insurance operations, customers are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2023	2022	2021
Life insurance	90	112	109
Property insurance	16	15	13
Total revenues from sale of insurance	**106**	**127**	**122**

Capital market

This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by customers (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services. The Bank also has a subsidiary, Etgar Investment Portfolio Management Company of Mizrahi Tefahot Group Ltd., engaged in management of securities investment portfolios and providing investment advice to Bank customers and to customers of other banks.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with customers in the household segment, the customers a range of credit cards are offered. The Bank offers its customers credit cards that are issued by credit card issuers Isracard, CAL and MAX, according to the customer's request. The Bank also allows customers to make payments using terminals that support EMV technology using various payment apps. The Bank also allows customers to make payments to merchants using the payment apps Apple Pay, Google Pay and payment apps of credit card companies. The Bank also has several products in the credit card sector:

"The Card": A Mizrahi-Tefahot credit card which also serves as the Bank's own customer loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.

For more information about the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 26.C.14 to the financial statements.

"Tefahot Credit Card": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the customer's repayment ability and the asset already pledged to the Bank, through which the customer can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

Unique services provided by the Bank to segment customers

The key unique service offered by the Bank is Hybrid Banking, which allows customers a multi-channel environment, spearheaded by easy, direct access to a personal banker using a range of readily available technologies, as selected by the customer.

As part of the Hybrid Banking strategy, additional telephone service is also provided by the banking center, composed of 11 clusters and a team handling business customers. Each team has 8-9 branches in various regions assigned to it. These teams are an integral part of the branches to which they are assigned, and provide another channel where the customer may obtain service outside the business hours of their branch.

Accordingly, Bank customers can reach their banker at the branch, or one of the branch team members, by using various communication channels, such as corresponding with a banker through the message box or on WhatsApp. The service is provided over 12 hours, from 8am to 8pm, and telephone service is available 24 hours a day. Moreover, under the household segment, the Bank offers its customers services which express the advantages of the combination of products offered by the Bank to its customers as described above. The Bank offers various benefits in current accounts and credit of customers who take out mortgages, in order to encourage the mortgage customers to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to customers with current accounts in the Bank, in order to encourage these customers to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav customers, based on their activity and attributes.

The unique services that the Bank offers its customers in the household segment include retail banking products and mortgage products, as provided below:

"Priority Account": Personalized banking assistance.

"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Customers may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select customers.

Benefits to mortgage holders: Unique benefits offered to specific groups of customers who have a mortgage account with the Bank. The benefits included an interest-free credit facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the customer's meeting other prescribed conditions during that month.

Retirement advisory service: The Bank offers a retirement advisory service to Bank customers and to customers of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct and digital channels.

The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target customers in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank an edge in the market while making the customer the focal point, in line with the Bank's strategy in recent years.

Marketers operate in four major areas:

- Direct activity with real estate players – to obtain potential customers.
- Activity with end customers – proactive contract with potential mortgage and checking account customers.
- Synergetic activity with individual customers – to realize the potential synergy of mortgage customers.
- Synergetic activity with business customers and MM customers – businesses, plants, Employee Unions etc.

Bank branches – the Group operates 206 business centers, branches across the country, including 55 Yahav branches (of which 3 branches offer partial service). In conformity with Bank strategy, the expansion of the branch network is being reviewed, primarily with regard to improvement of locations in major cities with emphasis placed on business-rich environments.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the customer's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup for service provided by bankers in branches, facilitating transactions and providing information to Bank customers, as part of the combined Hybrid Service provided to customers. This service is provided during extended hours, from 8am to 8pm.
- The banking center provides sale of instant loan services and credit cards as well as customer preservation for non-bank credit cards.
- Mortgage center: This center is at the core of the mortgage segment, providing customers with a range of activities related to mortgages, including filing and approval of applications and providing advice on residential mortgages, receiving payments for existing loans and making arrangements and payments for loans in arrears.
- The Hybrid Banking service for mortgages is provided at all Bank branches.
- Sales center: This is a portal for recruitment of new customers wishing to join the Bank. Activity in this center is intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit customers, who are referred directly to the sales center, or by means of outgoing sales calls to potential customers. The sales center also handles sales of Tefahot credit cards, general-purpose loans, refinancing of mortgages from other banks for Bank customers, reinforcing customer loyalty and customer preservation.
- Investment center: This center provides rapid, professional response to capital market customers for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new customers for savings, expanding savings activity for existing customers, while focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank customers with service concerning foreign currency and foreign and Israeli securities.
- On line service – allows customers to receive banking information and execute transactions in your account for a range of banking products available to Bank customers at a reduced cost. This service is available 24 hours a day.
- Bank customers can write directly to their banker through digital channels, including convenient transfer of documents between customer and banker at the branch.
- Account management app – an advanced app featuring login using fingerprint or facial recognition, allowing the customer to view information and to conduct various transactions, at any time and from anywhere. The new app features new, advanced transactions and a new, user-friendly interface.
- Tefahot Touch app – the mortgage app launched this year is used by customers, together with the Bank's mortgage experts, from the mortgage application stage through loan origination. The complex process of obtaining a mortgage is made simpler and more convenient by this app, without losing the human touch. Some of the actions required for taking out a mortgage, which previously required customers to go to the branch in order to conduct them, can now be easily completed using Tefahot Touch. Moreover, this is yet another channel for customers to contact the Bank's mortgage experts.
- Chat service: The Bank allows current and potential customers with regard to investments to chat online with bankers at the Bank.
- WhatsApp service: The Bank allows customers who so wish to use WhatsApp for correspondence with bankers at the Bank. It also provides WhatsApp service to mortgage customers.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification mailbox via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- IVR service: This service, available 24 hours a day, is provided to customers who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.
- Automated machines – the Bank provides various direct services to customers through service stations and ATMs. These services primarily include cash withdrawal and deposit, check book ordering and check deposit, loan origination and obtaining information.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of customer needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the customer base, mainly among mortgage customers, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to customers, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to customers.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's customers.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the customers. In 2022, a new player entered the market – the digital bank One Zero. In this year, a banking license was also awarded to a new digital bank about to enter the market - esh.

In 2023, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with customers referred to digital solutions.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue non-bank credit cards directly to customers – This trend accelerated in recent years, due to several significant agreements signed by credit card companies and major retail chains.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

Along with the Increased Competition and Reduced Concentration in Israeli Banking Law, enacted in January 2017, there are several legislative and regulatory efforts under way, which result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks, which went live in September 2021, and a project for arranging a system for sharing banking information by definition of a standard Open Banking API, which is being implemented based on the specified milestones.

Mortgages

Most of the mortgage activity in Israel is conducted through six banks operating in this competitive environment.

Mortgage operations are subject to Bank of Israel directives, primarily Proper Conduct of Banking Business Directive 451 "Procedures for extending residential mortgages", with the following highlights:
- Definition of "residential mortgage" consisting of two major groups:
  - Loans designated for purchase / lease / construction / expansion / refurbishment of a residential apartment, or purchase of land for construction of a residential apartment / interest in a residential apartment (DMEY MAFTEACH).
  - Loans for other purposes, secured by a mortgage on a residential apartment.
- Guidelines for providing approval in principle and locking of interest rate, including compliance with Directive 451 with regard to the Track Reform.
- Approval in principle to combine three uniform loan compositions, as specified in the Directive.
- Rules for property appraisal by an appraiser.
- Rules for obtaining property insurance and life insurance.
- Provision of information for review of feasibility of early repayment / confirmation with respect to early repayment.
- Adjusting the interest rate in loans subject to adjustable interest rate.
- Loan execution date for determination of the repayment schedule.
- Determination of the base index in a loan.

Extending residential mortgages is also subject to Proper Conduct of Banking Business Directive 329 "Restrictions on extending residential mortgages", with the following highlights:

- LTV cap – up to 75% for a single apartment, up to 70% for an alternate apartment and up to 50% for an investment property.
- Cap on loan payments as percentage of income – up to 50% (above 40%, the weighting of risk assets allocated by the Bank increases to 100%).
- Interest type restriction – up to 2/3 of the loan may be subject to adjustable interest.
- Term restriction – loan term may not exceed 30 years.

For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the residential mortgages portfolio, subject to appropriate risk management and maintaining appropriate credit quality.
The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to customers, emphasizing a personal connection and multiple channels.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The private banking center offers its customers full banking services to their customers, primarily private banking. The products and services offered to customers of this segment are as follows:
- **Banking and finance** – A wide range of banking and finance products are offered to this segment’s customers, in addition to ordinary banking services, while formulating an investment strategy suitable for each customer, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes customer operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** – the Bank offers to segment customers a range of exclusive credit cards issued by Israeli credit card companies, including special loyalty clubs for businesses.

Major markets and distribution channels

The markets addressed by this segment are customers with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.

In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.

In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the customer, in the organization of professional conferences for the segment's select customers, in introduction of specialized and unique products to the segment's customers, and in efforts to identify and attract new customers on a regular basis.

Small and micro business segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products:

Banking and finance

Within the scope of this product, the Bank provides the following services:

Management of checking account facilities: The facilities are determined according to the customer's needs, turnover and judgment of the Bank.

Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc. Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc. In 2023, Mizrahi Tefahot Voucher Discounting Ltd. was incorporated (hereinafter: "Voucher Discounting"), a wholly-owned subsidiary of the Bank. engaged in discounting of credit card vouchers. In January 2024, Voucher Discounting signed an agreement whereby it would receive operating services and customer service for voucher discounting.

Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the customer's activities using technological means, such as EDI (Electronic Data Inter-charge) online.

Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Capital market

This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment customers a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

As from December 2022, the Bank has been operating in the new State-guaranteed fund for small and medium businesses, after being selected by the Ministry of Finance as a lender in this fund. In this regard, the Bank extends State-guaranteed loans under various tracks.

In the fourth quarter of 2023, the Bank starting extending loans under a designated Iron Swords track, created by the State-guaranteed fund to assist businesses in addressing the implications of the war.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the customer, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis customers, while segmenting the customers by occupation, size of operation and individual needs.
- Maximize activity with each customer by adopting a comprehensive view of customer activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on customer attributes.
- Expand operations in State-guaranteed foundations.
- Expand geographic deployment of services provided to segment customers.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) in this area. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the customer, providing personal service and comprehensive professional solutions for the full range of customer financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Summary description of the segment (by Management Approach)

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 250 million.

This segment operates across all economic sectors, primarily industry, solar energy, commerce and services, as well as construction and real estate.

In recent years, new customers are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Customers in this segment are primarily served by the Bank's Corporate Division, primarily by the Business Sector, operating four business centers nation-wide, with additional service provided by the Bank's business centers, business branches and extensive branch network.

Each center has the professional resources required to address all customer needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of customer activity. Thus, customers enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.

Segment customers operating primarily in the real estate sector are served by the Construction and Real Estate sector of the Corporate Division, which specializes in provision of dedicated services to this sector. These customers enjoy service at specialized real estate branches, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.

Customers in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment customers.

Customers are mostly active on the local market. However, customers also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment customers are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivative instruments, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using four business centers operating under the Corporate Division, as well as business centers and Bank branches throughout Israel. Customer relations management is conducted by special professionals at the business centers, who are in charge of this and are in constant contact with customers. New customer recruitment is carried out in close co-operation with Bank business centers and branches operating in the Retail Division.

Operations in this segment include development of marketing and business operations based on understanding customer needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for customer needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor customers' financial robustness.

Customers may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the customer base and growth in the activities of the medium business segment.

The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new customers and expanding banking services to current customers and to customers for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment customers conduct their financial activity primarily within the banking system, so that competition for this customer segment is significant, since all banks and non-bank financing companies compete for this target audience.

There is also non-material competition in factoring and by credit card companies.

The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for customer needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Summary description of the segment (by Management Approach)

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 250 million.

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

The major sectors served are: industry, commerce, construction and real estate.

This segment includes market-leading customers with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.

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

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

All customers receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.

In its activities in this segment, the Bank emphasizes expansion of the current customer base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to customers by the trading room.

Products and services

Segment customers are offered a range of banking and finance products, including: Different types of credit – on call, loans for various terms, different types of guarantees; financing through leading and organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions; trading in derivative instruments; foreign trade activity (financing for credit insurance, importing, exporting and documentary credit) and factoring. These services are supported by a specialized sector at the Bank, which can customize for each customer the relevant product for their business and operating attributes.

Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national customers based in Israel.

In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas affiliates.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to customers of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** – construction project financing is a unique service, provided by the Bank exclusively to customers in this sector. Within this framework, the customer is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** – a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services. The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.
- **Arranging and leading syndications** – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – as part of the Bank being a major player in the business credit market. These operations are led by officers who specialize in this area. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and customer managers in the Business Banking Division, supported by the Bank's branches and business centers in Israel and at overseas affiliates.

In order to provide an optimal response to segment customer needs, the servicing of major business banking customers in this segment was placed under the Corporate Sector of the Bank's Corporate Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in syndication, factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for customer needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the customer's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of customer needs and their financial standing, as well as identifying risk associated with customer relationships due, *inter alia*, to anticipated changes in the economy and in the customer sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of customers and to expand business with existing customers and to finance large projects. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them. through, inter alia, the following activities:

- Implement an approach based on total outlook on the business customer, leveraging credit products and offering other products to establish a comprehensive customer relationship.
- Segmentation of business customers, economic sector and other attributes that require specialization, such as legal complexity, inter alia, in combination projects and in urban renewal projects (eviction-construction schemes and National Zoning Plan 38), in infrastructure projects and the high-tech sector, which has specific operating attributes. This is designed to optimally specify their business needs and to provide them with an appropriate professional solution.
- Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain customers, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these customers..

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment customers exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such customers, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to customers of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the customer's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to customer needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business customer and adapting it to the customer's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate customers has seen non-banking entities enter into this area, as well. These entities provide assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the customers’ needs, readily available and fast service, and maintaining close and personal ties with customers. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investors segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

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

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Banking services also include credit of various types and transactions involving derivatives.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division. In order to provide an optimal response to segment customer needs, the servicing of major customers in this segment was placed under the Corporation Sector of the Bank's Corporate Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for customer needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of customers and to expand business with existing customers. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain customers, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these customers.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable customers and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.

As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial management segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank customers in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.

OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government bonds.

Securities trading – trading securities to provide a solution for Bank customers' activity on the local market and on various world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, bonds, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed nations. The trading room includes a Customer Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the bond portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

At the Bank, the main activity in the bond portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive 342, Proper Conduct of Banking Business Directive 221 – liquidity coverage ratio and Proper Conduct of Banking Business Directive 222 – Net stable funding ratio (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro bond activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity. Bond operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.

As for management of market risk exposure, the Bank actively manages the trading portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity and financing ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing obligatory notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

One of the tools used by the Bank in managing liquidity and exposure to market and capital risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign customers trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the customer base and intensifying business activity and customer relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to customers whose financial stability may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management and the chapter "Credit risk" in the detailed Risks Report on the Bank website.

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results overseas

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch** – The branch is primarily engaged in commercial banking, financing for real estate transactions, financing for high-tech companies, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's customers are local, Israeli and international customers.
- **London Branch** – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit for high-tech companies, financing for real estate transactions, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's customers are local, Israeli and international customers.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant customers. These branches provide full banking services to their customers, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Major markets and distribution channels

The major markets are local customers, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as customers resident in Israel whose financial and business needs include banking services provided overseas.

Major distribution channels include participation in professional conferences in countries where the affiliates are located, and advertising in the local Jewish community.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the customer-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to customers is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong customer relationships, organizing professional events for select customers and efforts to locate and recruit new customers on a day-to-day basis.
The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risks factors:
- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risk (credit and market risk) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant Risk Owners at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

Competition in the segment and changes to it

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

Bank Mizrahi Tefahot

Appendixes to annual financial statements

2023

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Appendix 1 – Revenue rates and interest expenses of the Bank and subsidiaries thereof[1]

For the year ended December 31

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2023			2022			2021		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			in %			in %			in %
Interest-bearing assets									
Loans to the public[3]									
In Israel	306,630	[7]19,413	6.33	284,495	[7]14,469	5.09	247,531	[7]10,052	4.06
Outside of Israel	7,701	693	9.00	4,838	325	6.72	3,552	190	5.35
Total	**314,331**	**20,106**	**6.40**	**289,333**	**14,794**	**5.11**	**251,083**	**10,242**	**4.08**
Loans to the Government									
In Israel	476	16	3.36	312	3	0.96	311	1	0.32
Outside of Israel	70	8	11.43	101	8	7.92	223	10	4.48
Total	**546**	**24**	**4.40**	**413**	**11**	**2.66**	**534**	**11**	**2.06**
Deposits with banks									
In Israel	2,560	101	3.95	4,961	37	0.75	1,504	7	0.47
Outside of Israel	778	12	1.54	113	1	0.88	204	-	-
Total	**3,338**	**113**	**3.39**	**5,074**	**38**	**0.75**	**1,708**	**7**	**0.41**
Deposits with central banks									
In Israel	64,456	2,400	3.72	77,168	817	1.06	79,726	66	0.08
Outside of Israel	17,561	904	5.15	10,535	197	1.87	10,536	13	0.12
Total	**82,017**	**3,304**	**4.03**	**87,703**	**1,014**	**1.16**	**90,262**	**79**	**0.09**
Securities borrowed or purchased in resale agreements									
In Israel	96	4	4.17	1,108	10	0.90	369	-	-
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**96**	**4**	**4.17**	**1,108**	**10**	**0.90**	**369**	**-**	**-**
Bonds held to maturity and available for sale[4]									
In Israel	12,948	386	2.98	14,840	288	1.94	15,476	201	1.30
Outside of Israel	1,152	64	5.56	994	22	2.21	849	7	0.82
Total	**14,100**	**450**	**3.19**	**15,834**	**310**	**1.96**	**16,325**	**208**	**1.27**
Bonds held for trading[5]									
In Israel	6,714	4	0.06	218	18	8.26	363	10	2.75
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**6,714**	**4**	**0.06**	**218**	**18**	**8.26**	**363**	**10**	**2.75**
Total interest-bearing assets	**421,142**	**24,005**	**5.70**	**399,683**	**16,195**	**4.05**	**360,644**	**10,557**	**2.93**
Receivables for credit card operations	4,311			4,218			4,305		
Other non-interest bearing assets[6]	6,427			7,615			6,427		
Total assets	**371,376**			**411,516**			**371,376**		
Total interest-bearing assets attributed to overseas operations	**27,262**	**1,681**	**6.17**	**16,581**	**553**	**3.34**	**15,364**	**220**	**1.43**

See remarks below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries(1) – continued

For the year ended December 31

Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

			2023			2022			2021
	Average balance(2)	Interest expenses	Revenue rate in %	Average balance(2)	Interest expenses	Revenue rate in %	Average balance(2)	Interest expenses	Revenue rate in %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	34,293	1,053	3.07	43,719(11)	211	0.48	42,722(11)	104	0.24
Term deposits	215,855	9,053	4.19	169,384	3,861	2.28	146,126	1,605	1.10
Outside of Israel									
On-call	440	-	-	513	-	-	640	-	-
Term deposits	9,631	527	5.47	4,699	96	2.04	3,420	7	0.20
Total	**260,219**	**10,633**	**4.09**	**218,315**	**4,168**	**1.91**	**192,908**	**1,716**	**0.89**
Deposits from the Government									
In Israel	42	2	4.76	52	3	5.77	64	4	6.25
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**42**	**2**	**4.76**	**52**	**3**	**5.77**	**64**	**4**	**6.25**
Deposits from banks									
In Israel	6,687	95	1.42	7,727	9	0.12	5,687	4	0.07
Outside of Israel	56	-	-	345	-	-	34	-	-
Total	**6,743**	**95**	**1.41**	**8,072**	**9**	**0.11**	**5,721**	**4**	**0.07**
Securities loaned or sold in re-purchase agreements									
In Israel	-	-	-	-	-	-	-	-	-
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Bonds and subordinated notes									
In Israel	34,804	1,282	3.68	34,009	1,744	5.13	34,238	1,142	3.34
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**34,804**	**1,282**	**3.68**	**34,009**	**1,744**	**5.13**	**34,238**	**1,142**	**3.34**
Other liabilities									
In Israel	8,389	18	0.21	3,005	31	1.03	695	6	0.86
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**8,389**	**18**	**0.21**	**3,005**	**31**	**1.03**	**695**	**6**	**0.86**
Total interest-bearing liabilities	**310,197**	**12,030**	**3.88**	**263,453**	**5,955**	**2.26**	**233,626**	**2,872**	**1.23**
Non-interest bearing deposits from the public	79,819			105,005(11)			101,360(11)		
Payables for credit card transactions	3,892			4,114			4,305		
Other non-interest bearing liabilities(8)	12,810			15,191			11,055		
Total liabilities	**406,718**			**387,763**			**350,346**		
Total equity instruments	**27,284**			**23,753**			**21,030**		
Total liabilities and equity instruments	**434,002**			**411,516**			**371,376**		
Interest spread			**1.82**			**1.79**			**1.70**
Net return on interest-bearing assets(9)									
In Israel	393,880	10,821	2.75	383,102	9,783	2.55	345,280	7,472	2.16
Outside of Israel	27,262	1,154	4.23	16,581	457	2.76	15,364	213	1.39
Total	**421,142**	**11,975**	**2.84**	**399,683**	**10,240**	**2.56**	**360,644**	**7,685**	**2.13**
Total interest-bearing liabilities attributed to overseas operations	**10,127**	**527**	**5.20**	**5,557**	**96**	**1.73**	**4,094**	**7**	**0.17**

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] – continued

For the year ended December 31

Reported amounts (NIS in millions)

C. Average balances and interest rates – Further information about interest-bearing assets and liabilities attributed to operations in Israel

	2023			2022			2021		
	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	(Revenue) rate
			in %			in %			in %
Israeli currency – non-linked									
Total interest-bearing assets	294,922	16,231	5.50	286,245	9,307	3.25	256,660	6,290	2.45
Total interest-bearing liabilities	213,193	(7,164)	(3.36)	171,570[11]	(1,956)	(1.14)	153,879[11]	(824)	(0.54)
Interest spread			**2.14**			**2.11**			**1.92**
Israeli currency – linked to the CPI									
Total interest-bearing assets	84,154	5,128	6.09	80,577	5,781	7.17	73,138	3,715	5.08
Total interest-bearing liabilities	47,778	(2,139)	(4.48)	54,779	(3,185)	(5.81)	50,294	(1,835)	(3.65)
Interest spread			**1.62**			**1.36**			**1.43**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	14,804	965	6.52	16,280	554	3.40	15,482	332	2.14
Total interest-bearing liabilities	39,099	(2,200)	(5.63)	31,547	(718)	(2.28)	25,359	(206)	(0.81)
Interest spread			**0.89**			**1.13**			**1.33**
Total – operations in Israel									
Total interest-bearing assets	393,880	22,324	5.67	383,102	15,642	4.08	345,280	10,337	2.99
Total interest-bearing liabilities	300,070	(11,503)	(3.83)	257,896	(5,859)	(2.27)	229,532	(2,865)	(1.25)
Interest spread			**1.83**			**1.81**			**1.75**

See remarks below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries[1]

For the year ended December 31

Reported amounts (NIS in millions)

D. Analysis of changes in interest revenues and expenses

	2023 compared to 2022			2022 compared to 2021		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Volume	Price	Net change	Volume	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	1,401	3,543	4,944	1,880	2,537	4,417
Outside of Israel	258	110	368	86	49	135
Total	**1,659**	**3,653**	**5,312**	**1,966**	**2,586**	**4,552**
Other interest-bearing assets						
In Israel	(379)	2,117	1,738	10	878	888
Outside of Israel	395	365	760	(1)	199	198
Total	**16**	**2,482**	**2,498**	**9**	**1,077**	**1,086**
Total interest revenues	**1,675**	**6,135**	**7,810**	**1,975**	**3,663**	**5,638**
Interest-bearing liabilities						
Deposits from the public						
In Israel	1,497	4,537	6,034	463	1,900	2,363
Outside of Israel	254	177	431	21	68	89
Total	**1,751**	**4,714**	**6,465**	**484**	**1,968**	**2,452**
Other interest-bearing liabilities						
In Israel	144	(534)	(390)	164	467	631
Outside of Israel	-	-	-	-	-	-
Total	**144**	**(534)**	**(390)**	**164**	**467**	**631**
Total interest expenses	**1,895**	**4,180**	**6,075**	**648**	**2,435**	**3,083**

(1) Information in these tables is after effect of hedging derivative instruments.
(2) Based on balance at start of month (in Israeli currency – non-linked segment: based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of bonds available for sale, for the one-year periods ended December 31, 2023, 2022 and 2021, we (deducted) added the average balance of unrealized (losses) gains from adjustment to fair value of bonds available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS (444) million, NIS (409) million and NIS (27) million, respectively.
(5) From the average balance of bonds held for trading, for the twelve-month periods ended December 31, 2023, 2022 and 2021, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of bonds held for trading, amounting to NIS 2 million, NIS 16 million and NIS (3) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 375, 571 and 711 million were included in interest revenues for the one year periods ended December 31, 2023, 2022 and 2021, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided by total interest-bearing assets.
(10) The change attributed to change in volume was calculated by multiplying the new price and the change in volume. The change attributed to change in price was calculated by multiplying the old volume and the change in price.
(11) Reclassified.

Appendix 2 – Multi-period information

Consolidated statement of profit and loss – multi-period information

For the years ended December 31, 2019-2023

Reported amounts (NIS in millions)

	(1)2023	(1)2022	(1)2021	(1)2020	2019
Interest revenues	24,005	16,195	10,557	7,528	7,711
Interest expenses	12,030	5,955	2,872	1,708	2,371
Interest revenues, net	11,975	10,240	7,685	5,820	5,340
Expenses with respect to credit losses	1,463	532	(278)	1,050	364
Interest revenues, net after expenses with respect to credit losses	**10,512**	**9,708**	**7,963**	**4,770**	**4,976**
Non-interest revenues					
Non-interest financing revenues	511	754	401	221	357
Commissions	2,028	2,052	1,947	1,671	1,535
Other revenues	266	622	287	221	74
Total non-interest revenues	**2,805**	**3,428**	**2,635**	**2,113**	**1,966**
Operating and other expenses					
Payroll and associated expenses	3,544	4,029	3,536	2,644	2,562
Maintenance and depreciation of buildings and equipment	1,098	1,012	1,002	871	770
Other expenses	927	1,132	1,030	764	656
Total operating and other expenses	**5,569**	**6,173**	**5,568**	**4,279**	**3,988**
Pre-tax profit	7,748	6,963	5,030	2,604	2,954
Provision for taxes on profit	2,669	2,356	1,730	903	1,029
After-tax profit	**5,079**	**4,607**	**3,300**	**1,701**	**1,925**
Share in profit (loss) of associate companies, after tax	1	5	(10)	1	-
Net profit:					
Before attribution to non-controlling interests	5,080	4,612	3,290	1,702	1,925
Attributable to non-controlling interests	(170)	(140)	(102)	(92)	(83)
Attributable to shareholders of the Bank	**4,910**	**4,472**	**3,188**	**1,610**	**1,842**
Earnings per share[2] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	**19.07**	**17.47**	**12.47**	**6.70**	**7.86**
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	**19.00**	**17.38**	**12.35**	**6.69**	**7.83**

(1) As from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidated statement of profit and loss for 2021 includes the financial results of Union Bank.

(2) Share of NIS 0.1 par value.

Appendix 2 – Multi-period information – continued

Consolidated Balance Sheet – Multi-period information

As of December 31, 2019 – 2023

Reported amounts (NIS in millions)

	2023	2022	2021	2020	2019
Assets					
Cash and deposits with banks	86,550	93,673	95,267	86,570	51,672
Securities	23,071	15,144	15,033	17,290	10,113
Securities borrowed or purchased in resale agreements	106	315	1,332	200	120
Loans to the public	329,415	310,356	273,531	247,958	206,401
Provision for credit losses	(4,069)	(2,884)	(2,103)	(2,433)	(1,693)
Loans to the public, net	325,346	307,472	271,428	245,525	204,708
Loans to Governments	480	318	477	613	656
Investments in associated companies	242	127	69	31	32
Buildings and equipment	1,531	1,503	1,734	1,743	1,457
Intangible assets and goodwill	148	178	208	239	87
Assets with respect to derivatives	6,282	5,789	3,652	4,543	2,578
Other assets	4,448	3,773	3,071	3,386	1,821
Total assets	**448,204**	**428,292**	**392,271**	**360,140**	**273,244**
Liabilities and Equity					
Deposits from the public	358,553	344,514	307,924	284,224	210,984
Deposits from banks	4,571	6,994	6,992	3,779	714
Deposits from the Government	71	47	81	70	29
Bonds and subordinated notes	37,070	33,287	38,046	33,446	33,460
Liabilities with respect to derivatives	7,367	5,214	3,753	5,506	2,686
Other liabilities	11,869	13,368	13,746	13,446	8,566
Total liabilities	**419,501**	**403,424**	**370,542**	**340,471**	**256,439**
Shareholders' equity attributable to shareholders of the Bank	27,461	23,780	20,770	18,804	16,033
Non-controlling interests	1,242	1,088	959	865	772
Total equity	**28,703**	**24,868**	**21,729**	**19,669**	**16,805**
Total liabilities and equity	**448,204**	**428,292**	**392,271**	**360,140**	**273,244**

Appendix 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2023

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues	5,682	6,224	6,339	5,760
Interest expenses	2,993	3,265	3,158	2,614
Interest revenues, net	2,689	2,959	3,181	3,146
Expenses with respect to credit losses	295	694	247	227
Interest revenues, net after expenses with respect to credit losses	**2,394**	**2,265**	**2,934**	**2,919**
Non-interest revenues				
Non-interest financing revenues (expenses)	(167)	341	250	87
Commissions	493	506	501	528
Other revenues	76	62	63	65
Total non-interest revenues	**402**	**909**	**814**	**680**
Operating and other expenses				
Payroll and associated expenses	702	902	1,009	931
Maintenance and depreciation of buildings and equipment	246	274	272	306
Other expenses	248	239	240	200
Total operating and other expenses	**1,196**	**1,415**	**1,521**	**1,437**
Pre-tax profit	1,600	1,759	2,227	2,162
Provision for taxes on profit	519	624	779	747
After-tax profit	**1,081**	**1,135**	**1,448**	**1,415**
Share in net profits of associated companies, after tax	-	-	-	1
Net profit:				
Before attribution to non-controlling interests	1,081	1,135	1,448	1,416
Attributable to non-controlling interests	(34)	(37)	(50)	(49)
Attributable to shareholders of the Bank	**1,047**	**1,098**	**1,398**	**1,367**
Earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**4.06**	**4.27**	**5.43**	**5.32**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**4.04**	**4.24**	**5.41**	**5.30**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – continued

Consolidated Statement of Profit and Loss by Quarter – for 2022

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Interest revenues	4,877	4,213	3,961	3,144
Interest expenses	1,925	1,522	1,508	1,000
Interest revenues, net	2,952	2,691	2,453	2,144
Expenses with respect to credit losses	191	155	107	79
Interest revenues, net after expenses with respect to credit losses	**2,761**	**2,536**	**2,346**	**2,065**
Non-interest revenues				
Non-interest financing revenues	198	263	176	117
Commissions	505	519	508	520
Other revenues	64	60	66	432
Total non-interest revenues	**767**	**842**	**750**	**1,069**
Operating and other expenses				
Payroll and associated expenses	1,194	1,002	924	909
Maintenance and depreciation of buildings and equipment	281	240	254	237
Other expenses	339	287	264	242
Total operating and other expenses	**1,814**	**1,529**	**1,442**	**1,388**
Pre-tax profit	1,714	1,849	1,654	1,746
Provision for taxes on profit	580	635	572	569
After-tax profit	**1,134**	**1,214**	**1,082**	**1,177**
Share in net profit (loss) of associated companies, after tax	1	2	1	1
Net profit:				
Before attribution to non-controlling interests	1,135	1,216	1,083	1,178
Attributable to non-controlling interests	(48)	(38)	(30)	(24)
Attributable to shareholders of the Bank	**1,087**	**1,178**	**1,053**	**1,154**
Earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**4.23**	**4.59**	**4.11**	**4.50**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**4.21**	**4.56**	**4.09**	**4.43**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – continued

Consolidated balance sheet as of the end of each quarter in 2023

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Assets				
Cash and deposits with banks	86,550	81,645	83,746	90,240
Securities	23,071	19,007	19,865	19,348
Securities borrowed or purchased in resale agreements	106	24	4	15
Loans to the public	329,415	327,471	320,165	315,416
Provision for credit losses	(4,069)	(3,881)	(3,240)	(3,097)
Loans to the public, net	325,346	323,590	316,925	312,319
Loans to the Government	480	667	525	531
Investments in associated companies	242	241	197	193
Buildings and equipment	1,531	1,447	1,438	1,399
Intangible assets and goodwill	148	155	163	170
Assets with respect to derivatives	6,282	7,319	5,831	6,257
Other assets	4,448	4,194	4,028	3,638
Total assets	**448,204**	**438,289**	**432,722**	**434,110**
Liabilities and Equity				
Deposits from the public	358,553	351,034	345,191	348,469
Deposits from banks	4,571	5,008	6,541	7,284
Deposits from the Government	71	24	29	32
Bonds and subordinated notes	37,070	36,655	36,546	34,608
Liabilities with respect to derivatives	7,367	6,095	4,833	5,988
Other liabilities	11,869	11,801	12,592	11,747
Total liabilities	**419,501**	**410,617**	**405,732**	**408,128**
Equity attributable to equity holders of the Bank	27,461	26,459	25,814	24,844
Non-controlling interests	1,242	1,213	1,176	1,138
Total equity	**28,703**	**27,672**	**26,990**	**25,982**
Total liabilities and equity	**448,204**	**438,289**	**432,722**	**434,110**

Appendix 3 – Multi-quarter information – continued

Consolidated balance sheet as of the end of each quarter in 2022

Reported amounts (NIS in millions)

	Fourth quarter	Third quarter	Second quarter	First quarter
Assets				
Cash and deposits with banks	93,673	95,596	81,330	84,666
Securities	15,144	14,379	22,384	16,967
Securities borrowed or purchased in resale agreements	315	914	2,124	542
Loans to the public	310,356	306,908	300,871	285,457
Provision for credit losses	(2,884)	(2,804)	(2,638)	(2,540)
Loans to the public, net	307,472	304,104	298,233	282,917
Loans to the Government	318	339	464	457
Investments in associated companies	127	106	109	109
Buildings and equipment	1,503	1,410	1,421	1,400
Intangible assets and goodwill	178	185	193	201
Assets with respect to derivatives	5,789	8,695	7,080	3,353
Other assets	3,773	4,039	3,631	3,433
Total assets	**428,292**	**429,767**	**416,969**	**394,045**
Liabilities and Equity				
Deposits from the public	344,514	345,339	327,884	312,653
Deposits from banks	6,994	7,725	8,515	6,850
Deposits from the Government	47	48	57	66
Bonds and subordinated notes	33,287	31,352	35,173	36,045
Liabilities with respect to derivatives	5,214	7,549	6,264	2,940
Other liabilities	13,368	13,708	15,893	13,307
Total liabilities	**403,424**	**405,721**	**393,786**	**371,861**
Equity attributable to equity holders of the Bank	23,780	22,989	22,166	21,199
Non-controlling interests	1,088	1,057	1,017	985
Total equity	**24,868**	**24,046**	**23,183**	**22,184**
Total liabilities and equity	**428,292**	**429,767**	**416,969**	**394,045**

Appendix 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2023)

- The balance of investment in associated companies would have been lower by NIS 3.7 billion.
- The balance of deposits from the public would have been lower by NIS 35.2 billion.
- The balance of bonds and subordinated notes would have been higher by NIS 34.5 billion.

Profit and loss highlights (for 2023)

- Total non-interest revenues would have been higher by NIS 169 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 213 million.

Balance sheet highlights (as of December 31, 2022)

- The balance of investment in associated companies would have been lower by NIS 3.5 billion.
- The balance of deposits from the public would have been lower by NIS 30.7 billion.
- The balance of bonds and subordinated notes would have been higher by NIS 30.3 billion.

Profit and loss highlights (for 2022)

- Total non-interest revenues would have been higher by NIS 516 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 303 million.

Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and index for these terms

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

ABC	**ICAAP – Internal Capital Adequacy Assessment Process** by the Bank. The process includes, *inter alia*, setting capital targets, capital planning processes and review of the status of capital under diverse stress scenarios. This process is part of Pillar 2 of the Basel II directive.
	VAR – A model used to estimate total exposure to diverse market risks. The VAR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.
	SOFR (Secured Overnight Financing Rate) – Interest rate used by banks for pricing of derivatives and loans linked to USD. This interest rate is based on transactions where investors offer to banks loans secured by their bond assets. The Federal Reserve started publishing this rate in April 2018, as part of the effort to replace LIBOR rates.
B	**Basel – Basel II / Basel III** – A framework for assessment of capital adequacy and risk management, published by the Basel Committee on Bank Supervision.
C	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
E	**Standard approach** – An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. The capital allocation is calculated by a formula based on supervisory assessment components, as specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I equity and additional Tier I capital. Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Capital measurement and adequacy – Supervisory capital".
J	**Minimum capital ratio** – The ratio represents the minimum supervisory capital ratios which the Bank is required to maintain, pursuant to requirements set forth in Proper Conduct of Banking Business Directive 201.
K	**Subordinated notes** – Obligatory notes whose rights are subordinated to claims by other Bank creditors, except for other obligatory notes of the same type.
M	**Stress tests** – Term covering multiple methods designed to assess the financial standing of a banking corporation under a stress scenario.
	Risks document – A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The risks document is reported and presented to the Board of Directors quarterly.
N	**Pillar 2** – The second pillar of the Basel II document, referring to the supervisory review process. This part consists of the following underlying principles: The Bank shall conduct an ICAAP process, as defined above. The banking supervision shall conduct a process to assess the bank's capital adequacy assessment process, to review the bank's capacity to monitor and comply with supervisory capital ratios. The bank is expected to operate above the minimum capital ratios specified.
	Pillar 3 – The third pillar of the Basel II document, designed to promote market discipline by developing a set of disclosure requirements that would allow market participants to assess the capital, risk exposure and risk assessment processes, and accordingly – to assess the bank's capital adequacy.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**CVA – Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss from revaluation to market value due to expected counter-party risk for over-the-counter (OTC) derivatives. This means loss due to impairment of fair value of derivatives, due to increase in counter-party credit risk (such as: lowered rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
SH	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.

Terms with regard to banking and finance

ABC	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
A	**Off-balance sheet credit** – Contracting for providing credit and guarantees (excluding derivative instruments).
	Bonds – Securities which are issuer obligations to pay to bond holders the issued principal and interest upon set dates or upon fulfillment of certain conditions.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Debt secured by collateral – Impaired debt expected to be repaid by realizing collateral provided to secure such debt.
	Debt under re-structuring – Problematic debt under re-structuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms of the debt, designed to ease the burden on the debtor of cash payments in the near term (reduction or deferral of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses that require special attention from Bank management. If such weaknesses are not addressed, the likelihood of debt repayment may deteriorate.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired debt when payment of principal or interest with respect to such debt is in arrears 90 days or loner, unless the debt is well secured and is in a collection process. Furthermore, any debt whose terms and conditions have been modified in re-structuring of problematic debt shall be classified as impaired debt, unless prior to and following such re-structuring, a provision for credit losses by extent of arrears has been made for such debt, in conformity with appendix to Proper Conduct of Banking Business Directive 314 regarding problematic debt in residential mortgages.
	Problematic debt – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
J	**Recorded debt balance** – The debt balance, including recognized accrued interest, un-amortized premium or discount, net deferred commissions or net deferred costs charged to the debt balance and not yet amortized, net of any debt amount subject to accounting write-off.
M	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
	Average duration – Average duration of bonds. Measured in years, by weighting principal and interest payments for the bond over time, through final maturity. The average duration of bonds reflects sensitivity of the financial instrument to changes in interest rates. Average duration is calculated as the ratio of weighted average payments to price of the bond.
N	**Derivatives** – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
S	**Syndication** – Loan extended jointly by a group of lenders.
SH	**Active market** – Market where transactions in an asset or liability are conducted with sufficient frequency and volume to provide regular information about pricing of assets and liabilities.

Terms with regard to regulatory directives

ABC	**EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
	FATCA – Foreign Accounts Tax Compliance Act – The US Foreign Accounts Tax Compliance Act (FATCA) stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
	LCR – Liquidity Coverage Ratio – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a measure of the Bank's capacity to meet its liquidity needs for the coming month.

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Bank Mizrahi Tefahot

Periodic report

2023

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To
Israel Securities Authority
22 Kanfey Nesharim Street
Jerusalem 95464

Dear Sir/Madam,

Re: 2023 Periodic Report

Pursuant to the Securities Regulations (Periodic and immediate reports), 1970, we hereby present the Bank's 2023 periodic report.

Corporate information

Name of Corporation:	Bank Mizrahi Tefahot Ltd.
Company ID with Registrar:	520000522
Corporation's address of record:	7 Jabotinsky Street, Ramat Gan
Corporation's telephone:	03-7559219 fax: 03-7559923
Balance Sheet Date:	December 31, 2023
Report date:	March 11, 2024
Reported period:	2023

Regulation 9 – Financial statements

This periodic report includes the Report of the Board of Directors and Management, Description of Bank Group Business and the opinion of the Bank's Independent Auditor dated March 11, 2024.

Regulation 10c – Use of proceeds from securities pursuant to prospectus

No securities were issued pursuant to a prospectus in the reported period.

Regulation 11 – List of investments in subsidiaries and key affiliates as of December 31, 2023

	Share ID on the Stock Exchange	Share class	Shares held by the Bank: Number of shares	Shares held by the Bank: Total par value (in NIS)
Bank Yahav for Government Employees Ltd.	Non-negotiable	Ordinary NIS 0.01	243,899	2,439
		Base NIS 0.01 par value	1	- (1)
		Ordinary NIS 0.01 par value	1	- (1)
Tefahot Insurance Agency (1989) Ltd.	Non-negotiable	Ordinary NIS 1	201	201
Netzivim Assets and Equipment Ltd.	Non-negotiable	Ordinary NIS 0.0001	1,508,696,157	150,870
Union Leasing Ltd.	Non-negotiable	Ordinary NIS 1	1,000	1,000

(1) Less than NIS 1.

-							Capital investments and other investments
-	Cost of share purchase	Adjusted carrying amount	Loan balance	(Obligatory notes / bonds)			Holding stake
-	NIS in thousands		NIS in millions		Of capital	Of voting rights (in %)	of right to appoint Board members
-							
-	419,184	1,038	-	-	50.0	50.0	50.0
-							
-							
-	1	1,200	-	-	100.0	100.0	100.0
-	333,171	1,136	-	-	100.0	100.0	100.0
-	701	864	2,329	-	100.0	100.0	100.0

Regulation 13 – Revenues of subsidiaries and key affiliates and Bank revenues there from(1)

NIS in millions

	For the year ended December 31, 2023				
Company name	Net profit(2)	Pre-tax profit(2)	Interest	Management fee	Dividends
Bank Yahav for Government Employees Ltd.	339	520	-	-	-
Tefahot Insurance Agency (1989) Ltd.	85	111	-	-	-
Mizrahi Tefahot Leasing Ltd.	83	108	47	-	-

(1) Only results of subsidiaries and affiliates with significant information are presented.
(2) As reported by the companies.

Regulation 14 – List of loan balance groups as of the balance sheet date

See Note 30.C to the financial statements.

Regulation 20 - Trading on stock exchange – securities listed for trading – dates and reasons for trading halts

During the reported period, 951,533 ordinary shares of NIS 0.1 par value each were listed for trading due to options exercise by Bank managers pursuant to an option plan. For more information see Note 23 to the financial statements.
During the reported period, there were no trading halts on the stock exchange.

Regulation 21 – Remuneration of interested parties and senior officers

For more information about remuneration of interested parties and senior officers in 2023, see "Details of senior officer remuneration" in chapter "Corporate Governance" of the financial statements, as well as chapter "Remuneration" on the Risks Report available on the Bank website.
Payments to members of the Bank Board of Directors, including VAT (except for payments to the Chairman of the Board of Directors) in 2023 amounted to NIS 5 million. Total pay and associated expenses for the Chairman of the Board of Directors and for the Bank President & CEO amounted to NIS 8 million (for more information see Notes 22.A, 23.B and 34.C to the financial statements, as well as the section "Details of senior officer remuneration" in chapter "Corporate governance" of the financial statements).

Regulation 21a – Names of controlling shareholders of the corporation

For details of the names of controlling shareholders of the corporation, see "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 22 – Transactions with controlling shareholder

For more information about transactions with controlling shareholders in 2023, see "Transactions with controlling shareholders and related parties" in chapter "Corporate governance" of the financial statements.

Regulation 24 – Shares and securities held by interested parties in the corporation As of March 3, 2024

Ordinary shares NIS 0.1 par value and other securities of the Bank held by interested parties (security ID on the stock exchange – 0695437):

Name of interested party[6]	Company ID with Registrar	Number of Shares	Holding stake in %	Number of options	Holding stake, fully diluted
L.A.B.M. (Holdings) Ltd.[1]	51-2008442	33,639,930	13.03	-	12.92
L.I.N. (Holdings) Ltd. [1]	51-1349896	20,846,277	8.07	-	8.00
F & W (Registered Partnership)[2]	54-0183118	33,662,844	13.04	-	12.93
M.W.Z. Holdings Ltd.[2]	51-2024225	18,780,468	7.27	-	7.21
Meitav Dash Group[4]	520043795	16,235,176	6.29	-	6.23
Excellence HaPhoenix Group[4]	520041989 and 520017450	14,265,475	5.53	-	5.48
Harel Group[4]	520033986	13,142,551	5.09	-	5.04
Moshe Lari		-	-	85,391	0.01
Menahem Aviv		-	-	98,294	0.01
Ofer Horvitz		-	-	82,009	0.01
Meital Haroush		-	-	71,444	0.01
Galit Weizer		-	-	98,294	0.01
Ayala Hakim		-	-	134,930	0.02
Teri Esther Yaskil		-	-	86,671	0.01
Ofir Morad		-	-	136,586	0.02
Rachel Friedman		-	-	98,294	0.01
Adi Shachaf		-	-	123,861	0.01
Shevy Shemer		-	-	75,376	0.01
Micha Argaman		-	-	82,367	0.01
Tal Ben Ari		-	-	61,118	0.01
Chanan Kikuzashvili		-	-	26,327	-
Public		107,604,545	41.68	[3]6,643,420	42.04
Total		**258,177,266**	**100.00**	**7,904,382**	**100.00**

(1) Ofer Group company.

(2) Wertheim Group company.

(3) Includes option plan approved for Bank employees, other than interested parties, pursuant to Regulation 24 of the Securities Regulations (Periodic and Immediate Reports), 1970.

(4) As of December 31, 2023; Changes subsequent to this date are reflected under "Public".

(5) For more information about holdings of interested parties and agreements between controlling shareholders, see section "Controlling shareholders" in chapter "Corporate governance" of the financial statements.

Regulation 24a – Registered capital, issued capital and convertible securities[(1)]

Pursuant to Section 24a of the Securities Regulations, below is information about registered capital, issued capital and convertible securities (in NIS):

	Registered		Issued and paid-in	
	December 31		December 31	
	2023	**2022**	**2023**	**2022**
Ordinary shares, NIS 0.1 par value[(2)]	400,000,000	400,000,000	258,127,194	257,175,661

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

During the reported period, the issued and paid-in share capital increased by NIS 95,153 due to options exercised for shares by Bank managers.
All shares confer identical voting rights.

Regulation 24b – Shareholder registry as of March 3, 2024

	Number of Shares	**Holding stake**
Wertheim Group		
M.W.Z. Holdings Ltd.[(2)]	53	-
F & W (Registered Partnership)[(2)]	29,275,441	11.34
Total – Wertheim Group	**29,275,494**	**11.34**
Ofer Group		
L.A.B.M. (Holdings) Ltd.	29,512,972	11.43
Total – Ofer Group	**29,512,972**	**11.43**
Mizrahi Tefahot Registration Company Ltd.	**199,388,797**	**77.23**
Fishman Mordechai	**3**	**-**
Grand total	**258,177,266**	**100.00**

	Number of options
Registry of option holders	
Options to employee Mizrahi Tefahot AP 2019	8,895
Options to employee Mizrahi Tefahot AP Outline 2020	285,213
Options to employee Mizrahi Tefahot AP 2021	762,802
Options to employee Mizrahi Tefahot AP 2022	3,411,957
Options to employee Mizrahi Tefahot AP 2023	3,435,515
Total	**7,904,382**

Registry of holders of subordinated capital notes

	Number of capital notes
Registry of holders of subordinated capital notes – Series A (Holder: Registration Company)	**600,000,000**

Regulation 26 – Board members of the Bank

Below is information about Board members of the Bank as of the report issue date:

Moshe Vidman, Chairman[(1)(2)(3)]

ID	690875
Year of birth	1943
Formal Address	9 Katzenelson Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	Credit Committee – Chairman; IT and Technology Innovation Committee.
Start date in office as member of the Bank's Board of Directors	August 2, 2010
Education	Undergraduate degree – Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Board member and Chairman, Board of Directors of Bank Mizrahi-Tefahot, serves on volunteer basis as: Member, Executive Board of the United Jerusalem Foundation Ltd.; Member, Board of Trustees of the Hebrew University, Jerusalem.
Previous occupation (in past 5 years, other than current occupation)	Executive Board of Magnes Book Publishers.
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(4)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) Serves as Chairman of the Board of Directors as from December 1, 2012.
(3) On December 20, 2023, the General Meeting of Shareholders took place, and resolved to re-appoint Mr. Moshe Vidman as Chairman of the Board of Directors of the Bank for an additional term through June 15, 2024 at the latest.
(4) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Eli Alroy

ID	050606318
Year of birth	1951
Formal Address	24 Amirim, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee, Credit Committee
Start date in office as member of the Bank's Board of Directors	June 25, 2019
Education	B.Sc. In Sciences, specialized in civil engineering, Technion Israeli Technology Institute, 1974. M.Sc. in Sciences, Stanford University, California, USA, 1982.
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Member of O.G. Advisory committee; Board member of L.I.N (Holdings) Ltd., CEO and Board member of A.I.R.A.D Investments Ltd., Board member of L.I.N Innovation Ltd., Board member of L.A.B.M (Holdings) Ltd., Board member of L.I.N (Investments) HoldCo Ltd., Board member of L.I.N Investments Ltd., Board member of L.I.N–L.A.B.M Holdings Ltd.
Previous occupation (in past 5 years, other than current occupation)	Board member of the following: Ofer Investments Ltd. (term expired on February 7, 2019); Ofer Brothers Holdings (1989) Ltd. (term expired on February 7, 2019); Abir Haber Ltd. (term expired on January 16, 2019); Quick Check Ltd. (term expired on May 21, 2019); O.G. Tech Partners Ltd. (term expired on May 1, 2020); Globalworth Real Estate Investment Limited (term expired on March 30, 2020); Nalin (Holdings) Ltd. (in voluntary dissolution) (term expired on April 18, 2019); Amkiri Ltd. (in voluntary dissolution) (term expired on May 7, 2023).
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Ron Gazit(1)

ID	050688605
Year of birth	1951
Formal Address	8 Herzel Rosenblum Street, Tel Aviv
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee, Credit Committee
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Legal and economic advisor to Tanzanite Capital Ltd.
Previous occupation (in past 5 years, other than current occupation)	
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	Yes
Expert Board member(2)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	No

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Estheri Giloz-Ran

ID	025682154
Year of birth	1974
Formal Address	1 Yefe Nof, Givatayim
Citizenship	Israeli
Membership of Board of Directors' committees	Audit, Remuneration, IT and Technology Innovation Committees.
Start date in office as member of the Bank's Board of Directors	February 27, 2021
Education	BA in Humanities – Management (Open University); CPA (Management College); MBA in Business Administration (Ben Gurion University); PhD in Accounting and Taxes (Ben Gurion University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., advisor providing legal opinions, Board member of the following: external Board member of Orda Print Industries Ltd., M. external Board member of Yohananof and Sons (1988) Ltd., external Board member of Netanel Group Ltd., external Board member of Aran Research and development (1982) Ltd., Board member of Aminach Furniture and Mattress Industries Ltd., independent Board member of Imagesat International (ISI) Ltd.
Previous occupation (in past 5 years, other than current occupation)	Member, Testing Board of the Institute of Certified Public Accountants in Israel. Has served as Board member of the following companies: ExposeBox Ltd.; independent Board member of Blue Square Real Estate Ltd.; external Board member of Overseas Commerce.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Avraham Zeldman[(1)(2)]

ID	05795919
Year of birth	1948
Formal Address	6 Shivtey Israel Street, Ra'anana
Citizenship	Israeli
Membership of Board of Directors' committees	Audit, Risks Management.
Start date in office as member of the Bank's Board of Directors	February 26, 2015
Education	Studied statistics and economics, no degree award (Haifa University), certificate studies in business administration (Haifa University).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Chairman of the Board of Directors of Fox Wiezel Ltd., Board member and CEO of A. Zeldman Management Ltd., Consultant to Polyeurethane Ltd.; Executive Board member, MATI Raanana; Executive Board member, Dualis Fund for Social Investments.
Previous occupation (in past 5 years, other than current occupation)	
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(3)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) On February 12, 2024, the Bank reported that the Bank's Board of Directors resolved to appoint Mr. Avi Zeldman to be Chairman of the Board of Directors, effective as from June 16, 2024, after expiration of Moshe Vidman's term in office. Mr. Zeldman's term in office is subject to the Bank not receiving notice from the Supervisor of Banks of their objection to this appointment, or subject to receiving notice from the Supervisor of their consent.
(2) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(3) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Hannah Feuer[1]

ID	053549523
Year of birth	1955
Formal Address	13 HaChermesh Street, Savyon
Citizenship	Israeli
Membership of Board of Directors' committees	Remuneration – Chair, Audit, Credit
Start date in office as member of the Bank's Board of Directors	August 30, 2018
Education	Undergraduate degree in Sociology (Tel Aviv University) and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN)) required for CPA qualification tests in the State of California.
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Member of the Executive Committee of Mahapach Toda'ati (Non-Profit).
Previous occupation (in past 5 years, other than current occupation)	Board member of: Poalim Real Estate Fund (Israel) Ltd., Poalim Real Estate Fund Ltd.; External Board member of the following: Discount Capital Ltd., OWC – Pharmaceutical Research Corp.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[2]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Joseph Fellus

ID	051641025
Year of birth	1953
Formal Address	11 Yehuda HaLevi, Raanana
Citizenship	Israeli
Membership of Board of Directors' committees	Audit – Chair, Credit; Risks Management; Remuneration.
Start date in office as member of the Bank's Board of Directors	August 20, 2019
Education	BA in Economics and Accounting (Tel Aviv University), CPA (Tel Aviv University), Practical Engineer in Electronics (Technicum Yad Singalovski).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Board member of: Kaitz BeYafo Ltd., Massa Kaitz Ltd., Hayde Yafo Ltd., Meitav HaTene Holdings (1977) Ltd., Meitav HaTene Land Holdings Ltd., K Tesoro Ltd., Skuba YB Ltd., Ex On Media Ltd. Chairman of the Board of Directors and CEO of Joseph Fellus Accountants Ltd.
Previous occupation (in past 5 years, other than current occupation)	Partner, CPA firm; Chairman of the Board, Sports Betting Regulatory Council.
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[1]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Jonathan Kaplan[(1)]

ID	055251391
Year of birth	1958
Formal Address	2 Haim Zakay Street, Petach Tikva
Citizenship	Israeli
Membership of Board of Directors' committees	Credit, Risks Management, IT and Technology Innovation.
Start date in office as member of the Bank's Board of Directors	May 12, 2011
Education	Undergraduate degree in Economics and Accounting (Tel Aviv University); CPA; graduate degree in Political Science and National Security (Haifa University; National Security College, Tel Aviv).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd., Advisor to various entities on management and economic issues. Owner and advisor to Yoni Kaplan Consulting and Investments Ltd. Board member of: Central Soft Drinks Company Ltd., International Beer Breweries Ltd., Vilar International Ltd. (Chair)
Previous occupation (in past 5 years, other than current occupation)	
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member[(2)]	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) "Has banking experience", as this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Ilan Kremer

ID	059841742
Year of birth	1967
Formal Address	7 HaDror Street, Mevaseret Zion
Citizenship	Israeli
Membership of Board of Directors' committees	Risk Management
Start date in office as member of the Bank's Board of Directors	March 27, 2019
Education	Undergraduate degree in Physics and Computer Science (Hebrew University in Jerusalem), graduate degree in Computer Science (Hebrew University in Jerusalem), PhD in Financing (Northwestern University, Evanston Illinois).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Professor of Economics and Financing at Hebrew University, Professor of Economics at Warwick University, UK.
Previous occupation (in past 5 years, other than current occupation)	External advisor to Research Department of the Bank of Israel (through January 2019). Consultant to Wiz (through January 2019).
External Board member as defined in Proper Conduct of Banking Business Directive 301	No
External Board member as defined in the Companies Law	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Expert Board member(1)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Gilad Rabinobich

ID	057153603
Year of birth	1961
Formal Address	7 Mitzpeh Street, Shoham
Citizenship	Israeli
Membership of Board of Directors' committees	IT and Technology Innovation Committee – Chair; Audit, Risks Management, Remuneration.
Start date in office as member of the Bank's Board of Directors	March 12, 2019
Education	Undergraduate degree in Economics (Bar Ilan University), Graduate degree in Israeli Studies (Haifa University), Programming course (IDF) and system analysis course (IDF).
Current occupation	Board member of Bank Mizrahi Tefahot Ltd.; Owner and CEO of strategic technology consulting company A.T. Strategy Pillars Ltd., guest lecturer in business administration, technology and entrepreneurship, Ono Academic campus, owner and CEO of Gilad Rabinobich Ltd., Chairman (volunteer) of Executive Board of Be'eri Pre-Military School.
Previous occupation (in past 5 years, other than current occupation)	CEO of SQLink, Deputy Head of Council, Shoham and holder of Education Portfolio on Shoham Council (volunteer), Board member (volunteer) of Bet Arlozorov Ltd., CEO (and owner) of A.T. Strategy Ltd., CEO of R.G.I.H.G Ltd. Board member (volunteer) of Tzofan – High Tech Centers Ltd.
Has experience, expertise and qualifications in information and cyber security.	Has experience, expertise and qualifications in information and cyber security due, *inter alia*, to holding office as follows: CEO of SQLink Ltd. (2019–2021), CEO of Malam Systems Ltd. - a public company (1996–2000 and from December 2001 to June 2006), CEO of EDS Middle East (2007–2010), CEO of Netvision Ltd. (2000–2001) and CEO of Elad Software Systems Ltd. (1991–1996). Furthermore, consulting and creating technology and information security tenders for companies including Tnuva Co-operative Marketing Center for Agricultural Produce in Israel Ltd.; Lumenis Ltd.; TSG IT Advanced Systems Ltd. and others (2011 to date). Graduate of MAMRAM training, IDF with multiple training courses (1984–1989).
External Board member as defined in Proper Conduct of Banking Business Directive 301	Yes
External Board member as defined in the Companies Law	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	Yes
Has proven knowledge and experience in IT(1)	Yes
Expert Board member(2)	Yes
Employed by the corporation, subsidiary, affiliate or an interested party?	No
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise for meeting the minimum number specified by the Board?	Yes

(1) As this term is defined in Proper Conduct of Banking Business Directives issued by the Supervisor of Banks.
(2) As this term is defined in the Companies Regulations (Rules for remuneration and expense reimbursement for external board members), 2000.

Regulation 26 – Board members of the Bank – continued

Below is additional information about Board members with accounting and financial qualifications

Moshe Vidman

Undergraduate degree in Economics and Political Science and graduate degree in Business Administration (Financing).

Mr. Vidman has served as Board member of the Bank since August 2010 and serves as Chairman of the Bank Board of Directors as from December 2012. Mr. Vidman has also served as member of the Bank Board of Directors' Audit Committee prior to his appointment as Chairman of the Board of Directors. Currently Mr. Vidman is a member of the Credit, Risk Management, IT and Technology Innovation Committee.

Previously, Mr. Vidman has served, *inter alia*, as Member of the Board of Directors of Bank Leumi Le-Israel Ltd. (2004-2010) and as member of the Audit Committee of Bank Leumi Le-Israel Ltd. (For 3 years); as Board member and member of the Audit Committe and Finance Committee of the Israel Corporation Ltd.; as Board member and Chairman of the Audit Committee of Partner Communications Ltd.; and as Board member of other public companies with significant business volumes, including ICL Ltd. and Melisron Ltd.

Estheri Giloz-Ran

BA in Social Sciences – Management, CPA, MBA in Business Administration and PhD in Accounting and Taxes.

Ms. Giloz-Ran serves as external Board member of the Bank as from February 2021. She currently serves as a member of the Audit Committee, Remuneration Committee, IT Committee and Technology Innovation Committee.

Ms. Giloz-Ran has served as Head of the Accounting Department and as lecturer in the Business Administration Department at Peres Academic Center (2011-2017); Ms. Giloz-Ran has also served as member of the Professional Council of the Institute of Certified Public Accountants in Israel (2018-2020) and has served as member of the Testing Committee of the Institute of Certified Public Accountants in Israel (2018-2020).

Ms. Giloz-Ran also serves, inter alia, as external Board member and member of the Audit Committee of public companies with significant business volume (for some also serves as Chair of the Audit Committee) and provides opinions for use in Court (significant volume) on business and accounting matters and on matters related to financial statements (since 2015).

Avraham Zeldman

Studied Statistics and Economics, certificate studies in Business Administration (not eligible for degree).

Mr. Zeldman has served as Board member of the Bank since February 2015. In December 2020, Mr. Zeldman was appointed Chairman of Union Bank Integration Committee. Currently, Mr. Zeldman is a member of the Audit Committee and Risks Management Committee.

Mr. Zeldman has held senior positions at Bank Leumi Group, as follows: Executive with Bank Leumi (1987-2000), CEO of Leumi Partners Ltd. (2000-2010) and Chairman of the Board of Directors of Bank Leumi LeMashkantaot Ltd. (1987-2010).

Mr. Zeldman has also been serving as Board member of other public companies.

Hannah Fayer

Undergraduate degree in Sociology and additional accounting studies with no academic degree awarded (California State University Northridge (CSUN) (two years of studies).

Ms. Feuer serves as external Board member of the Bank as from August 2018. In January 2020, Ms. Feuer was appointed Chair of the Remuneration Committee. Currently, Ms. Feuer is a member of the Audit Committee, Remuneration Committee and Credit Committee.

Ms. Feuer has served as CFO and executive of Poalim Capital Markets Ltd. (2003-2017) and as CFO of Shrem Podim Kelner Group (1993-2002).

Ms. Feuer has professional experience in audit management with accounting firms (1985-1988 and 1989-1993).

Joseph Fellus

Undergraduate degree in Accounting, licensed CPA, undergraduate degree in Economics.

Mr. Fellus serves the Bank as external Board member since August 2019. In January 2020, Mr. Fellus was appointed Chairman of the Audit Committee. Currently, Mr. Fellus is a member of the Audit Committee, Remuneration Committee, Risks Management Committee, and the Credit Committee.

Mr. Fellus has served (through March 31, 2019) as Partner of an accounting firm and has served (2014-2019) as Managing Partner of the firm. High-tech and consulting. Mr. Fellus was with this accounting firm for 40 years, of which 30 years as Partner engaged, inter alia, in audit management for public and private companies with significant business volumes.

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, licensed CPA, graduate degree in Political Science and National Security.

Mr. Kaplan has been serving as Board member of the Bank since May 2011. Currently, Mr. Kaplan is a member of the Risk Management Committee, Technology Committee and Credit Committee.

Mr. Kaplan has served (1999-2001) as Director General of the Tax Authority; Previously he has worked (since 1982) at the Tax Authority and has served (since 1993) as Deputy Director General for Tax Assessment; Mr. Kaplan has also been serving for 20 years as economic consultant to public and private companies engaged, *inter alia*, in consulting on issues of management and taxation.

Mr. Kaplan has also been serving as Board member of other public companies.

Ilan Kremer

Undergraduate degree in Physics and Computer Science, Graduate degree in Computer Science, PhD in Financing.

Mr. Kremer has been serving as Board member of the Bank since March 2019. He currently is a member of the Risk Management Committee.

Mr. Kremer has been Professor of Economics and Financing at the Hebrew University (2011 to date) and Professor of Economics at Warwick University, UK (2012 to date). Mr. Kremer was also (2000-2012) Professor of Financing at Stanford University, USA; Mr. Kremer has been serving, *inter alia*, as lecturer on business and accounting matters and on matters related to financial statements.

Gilad Rabinobich

Undergraduate degree in Economics and graduate degree in Israel Studies.

Mr. Rabinobich serves as Board member of the Bank as from March 2019. In February 2020, Mr. Rabinobich was appointed Chairman of the IT and Innovation Committee. Currently, Mr. Rabinobich is a member of the Audit Committee, Remuneration Committee, Risks Management Committee and IT Committee.

Mr. Rabinobich has served as CEO of Malam Systems Ltd. (Public company) from December 2001 to June 2006.

The Bank’s Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, to expand its business and customer base.

Regulation 26a – List of senior Bank executives[(1)]

Below is information about senior Bank officers as of the issue date of the financial statements:

Moshe Lari[(2)]

ID	28405934
Birth date	1971
Title	President & CEO
Start of term in office	Since September 16, 2020 – as Bank President & CEO.
Position held with the banking corporation	President & CEO
Position held with the subsidiary	Chairman of Mizrahi Tefahot Technology Division Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting, Hebrew University, Jerusalem. Graduate degree in Business Administration from Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Financial Division – CFO at Bank Mizrahi Tefahot Ltd. Chairman of Mizrahi Tefahot Issue Company Ltd., Chairman of Mizrahi Tefahot Trust Company Ltd., Chairman of Union Bank Le-Israel Ltd., Chairman of Hamizrahi Bank Switzerland, Board member of Bank Yahav, Board member of UNITED MIZRAHI OVERSEAS HOLDING COMPANY B.V.

Menahem Aviv

ID	012390175
Birth date	1959
Start of term in office	April 13, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Information and Reporting Division and Chief Accountant.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Economics – Tel Aviv University. MBA – Tel Aviv University, CPA.
Business experience (in past 5 years)	Chief Accountant and Manager, Financial Information and Reporting Division of Bank Mizrahi Tefahot Ltd. Board member of Union Bank Le-Israel Ltd.

Ofer Horvitz

ID	040573743
Birth date	1980
Start of term in office	April 1, 2023
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risks Control Division – CRO
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Combined undergraduate degrees in: Philosophy, Economics and Political Science – Hebrew University, Jerusalem.
Business experience (in past 5 years)	Manager, Bank Headquarters and Secretary, Bank Mizrahi Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Mr. Moshe Lari is an interested party due to his office as President & CEO of the Bank.

Regulation 26a – List of senior Bank executives[1] – continued

Meital Haroush

ID	037153913
Birth date	1979
Start of term in office	April 1, 2023
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Capital and Resources Division. Chair of the Board of Directors, Migrashim 1 2 3 New Commercial Center Ltd.; Chair of the Board of Directors, Mizrahi Tefahot Security Services Ltd.; Chair of the Board of Directors, Netzivim Assets and Equipment Ltd.; Member of the Board of Directors, Igudim Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Banking and Capital Market from Academic College, Netanya. MA in Law from Bar Ilan University, Faculty of Law.
Business experience (in past 5 years)	Manager, LIVE and Direct Banking Sector at Bank Mizrahi Tefahot Ltd.

Galit Weiser[2]

ID	023878341
Birth date	1968
Start of term in office	July 7, 2011
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor of Bank Yahav, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi Tefahot Trust Company Ltd., Mizrahi Tefahot Issue Company Ltd., Netzivim Assets and Equipment Ltd., Tefahot Insurance Agency (1989) Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Statistics from the Hebrew University, Jerusalem. Graduate degree in Business Administration from the Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor; Manager, Internal Audit Division, Bank Mizrahi Tefahot Ltd.

Ayala Hakim

ID	056593767
Birth date	1960
Start of term in office	July 1, 2013
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Mizrahi Tefahot Technology Division Ltd. Board member of Netzivim Assets and Equipment Ltd., Board member of Mizrahi Tefahot INVEST Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University;
Business experience (in past 5 years)	CIO of Bank Mizrahi Tefahot Ltd.; Board member Union Bank Le-Israel Ltd.
Has experience, expertise and qualifications in information and cyber security.	Has experience, expertise and qualifications in information and cyber security due, inter alia, to serving the Bank (since July 2013) as CIO of the Bank, as CEO of Mizrahi Tefahot Technology Division Ltd. (wholly-owned subsidiary of the Bank) and to having extensive experience (35 years) in senior positions at IDF technology units.

(1) Senior officers include no family members of another senior officer or interested party.
(2) Pursuant to provisions of Section 146(B) of the Corporations Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Regulation 26a – List of senior Bank executives[1] – continued

Terry Yaskil

ID	016834145
Birth date	1973
Start of term in office	November 1, 2021
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Advertising and Corporate Development Division, Board member of Tefahot INVEST Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology, Ben Gurion University Graduate degree in Cognitive Psychology (no thesis) – Ben Gurion University.
Business experience (in past 5 years)	VP, Marketing and Service at Partner Group.

Ofir Morad

ID	24607806
Birth date	1969
Start of term in office	January 1, 2014
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Business Banking Division Board member of Bank Yahav for Government Employees Ltd., Chair, Mizrahi Tefahot Factoring Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration – Bar Ilan University Graduate degree in Industrial Engineering – Ben Gurion University
Business experience (in past 5 years)	Manager, Business Banking Division at Bank Mizrahi Tefahot Ltd.

Rachel Friedman

ID	057222200
Birth date	1961
Start of term in office	January 1, 2015
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel; Manager, Legal Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	LLB Law degree – Tel Aviv University. LLM Law degree – Tel Aviv University.
Business experience (in past 5 years)	Chief Legal Counsel; Manager, Legal Division of Bank Mizrahi Tefahot Ltd.

(1) Senior officers include no family members of another senior officer or interested party.

Regulation 26a – List of senior Bank executives[1] – continued

Adi Shachaf

ID	025735598
Birth date	1974
Start of term in office	September 16, 2020
Title	Vice-president.
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Financial Division – CFO Chairman of Mizrahi Tefahot Issue Company Ltd., Chairman of Mizrahi Tefahot Trust Company Ltd., Chairman of Mizrahi Tefahot INVEST Ltd., Board member of UNITED MIZRAHI OVERSEAS HOLDING COMPANY B.V.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Psychology – Hebrew University, Jerusalem. Graduate degree in Business Administration – Hebrew University, Jerusalem
Business experience (in past 5 years)	Deputy Manager, Finance Division at Bank Mizrahi Tefahot Ltd., Board member of Union Bank Le-Israel Ltd.

Shevy Shemer

ID	059030957
Birth date	1964
Start of term in office	April 1, 2022
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division, Chairman of the Board of Directors, Mizrahi Tefahot Leasing Ltd. and Mizrahi Tefahot Voucher Discounting, Board member of Tefahot Insurance Agency (1989) Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Industrial Engineering (Information Systems) – Ben Gurion University. MBA – Ben Gurion University.
Business experience (in past 5 years)	CEO of Union Bank Le-Israel Ltd. EVP – Manager, Retail Division, Customer Assets and Advisory – Union Bank Le-Israel Ltd.

Micha Argaman

ID	028617819
Birth date	1971
Start of term in office	April 1, 2023
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Banking Operation sector; Board member of Mizrahi Tefahot Trustee Company Ltd.; Tefahot Insurance Agency (1989) Ltd.; Netzivim Assets and Equipment Ltd.; Mizrahi Tefahot Leasing Ltd.; Igudim Ltd.; Igud Odafim Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	MBA – Ben Gurion University. BSc in Industrial Engineering – Ben Gurion University. Real estate appraisal and management – Tel Aviv University.
Business experience (in past 5 years)	Deputy Manager, Human Capital and Resources Division. Board member of MASAV (Inter-bank Clearing House Ltd.)

1) Senior officers include no family members of another senior officer or interested party.

Regulation 26a – List of senior Bank executives[1] – continued

Tal Ben Ari

ID	028789915
Birth date	1971
Start of term in office	April 1, 2023
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Enterprise Projects Department
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics – expanded, Hebrew University, Jerusalem. Year 1 studies in business administration and economics at Ben Gurion University, Be'er Sheva.
Business experience (in past 5 years)	Project Manager, Union Bank integration into Bank Mizrahi Tefahot. Manager, Financial Management Division at Union Bank Le-Israel Ltd. (executive).

Chanan Kikuzashvili

ID	039591193
Birth date	1983
Start of term in office	April 1, 2023
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Bank Secretary and Manager, Bank Headquarters
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Executive MBA – Ben Gurion University. Undergraduate degree in Economics and Business Administration – Ben Gurion University.
Business experience (in past 5 years)	Deputy Secretary of the Bank, Personal Assistant to Manager, Planning, Operations and Customer Asset Division.

(1) Senior officers include no family members of another senior officer or interested party.

Reg. 26b – Authorized signatories of the Bank

The Bank has no sole authorized signatory.

Regulation 27 – Independent Auditor of the Bank

Brightman Almagor Zohar & Co., CPAs, 1 Azrieli Center, Tel Aviv.

Reg. 28 - Changes to Articles of Incorporation or to Bylaws

On September 5, 2023, the General Meeting of Bank shareholders approved amendment of bylaws 1.1, 142, 143, 144 and 145 of the Bank Bylaws, with regard to officer indemnification and insurance. This is so as to allow for insurance and indemnification due to payment to the injured party due to breach and due to expenses with respect to an administrative proceeding, including reasonable litigation expenses and legal fees, in conformity with provisions of the Financial Information Services Law, 2021 and the Payment Services and Payment Initiation Regulation Law, 2023.

Regulation 29 – Recommendations and decisions by Board members

A. Recommendations by Board members to the General Meeting and resolutions not requiring approval by the General Meeting, with regard to matters listed in the Bylaws:

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

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

Below are details of dividend distributions by the Bank in the reported period:

– On March 28, 2023: NIS 326.1 million (30% of net profit in the first quarter of 2023).

– On June 1, 2023: NIS 410.1 million (30% of net profit in the second quarter of 2023).

– On August 29, 2023: NIS 489.3 million (35% of net profit in the second quarter of 2023).

– On December 12, 2023: NIS 164.7 million (15% of net profit in the third quarter of 2023).

Dividends declared with respect to earnings in the fourth quarter of 2023

On March 11, 2024, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 209.4 million, or 20% of earnings in the fourth quarter of 2023, in conformity with the Bank's dividend policy, and in order to support future growth of the Bank in view of developments in the macro-economic environment.

The dividends are 811.10% of issued share capital, i.e. NIS 0.8111 per NIS 0.1 par value share. The effective date for dividends payment is March 19, 2024 and the payment date is March 28, 2024. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

B. Resolutions by the General Meeting made other than in accordance with recommendations made by Board members on issues set forth in sub-section (a): None.

C. Resolutions by an extraordinary General Meeting:

An extraordinary General Meeting of Bank shareholders, held on April 19, 2023, resolved to approve payment of an additional bonus for 2022, other than in conformity with the Bank's remuneration policy, as approved by the General Meeting of Bank shareholders on July 6, 2021, amounting to NIS 350,000, to each of the following officers of the Bank: Ayala Hakim and Ofir Morad.

For more information see Immediate Report dated March 14, 2023 (reference 2023-0-026835) and Immediate Report dated April 19, 2023 (reference 2023-01-042882).

An extraordinary General Meeting of Bank shareholders, held on September 5, 2023, resolved as follows:

A. To amend bylaws 1.1, 142, 143, 144 and 145 of the Bank Bylaws, with regard to officer indemnification and insurance. This is so as to allow for insurance and indemnification due to payment to the injured party due to breach and due to expenses with respect to an administrative proceeding, including reasonable litigation expenses and legal fees, in conformity with provisions of the Financial Information Services Law, 2021 and the Payment Services and Payment Initiation Regulation Law, 2023.

B. To amend the letter of waiver and commitment to indemnification by the Bank for Board members and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and their relatives, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future.

1. The amendment stipulates, *inter alia*, that the commitment to indemnification would also apply in these cases: (1) Financial liability imposed due to payment to the injured party due to breach, as set forth in Section 52 (54)(a)(1)(a) of the Securities Law, pursuant to the Financial Information Services Law and pursuant to provisions of the Payment Services and Payment Initiation Regulation Law. (2) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter E (titled

"Monetary sanction"), or a proceeding pursuant to Chapter F (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Financial Information Services Law (or any other proceeding pursuant to this law), as amended from time to time. (3) Expenses, including reasonable litigation expenses and legal fees, with respect to a proceeding pursuant to Chapter G (titled "Monetary sanction"), or a proceeding pursuant to Chapter H (titled "Imposition of administrative enforcement measures by the Administrative Enforcement Committee") of the Payment Services and Payment Initiation Regulation Law (or any other proceeding pursuant to this law), as amended from time to time. The list of events in the addendum to the letter of commitment was also revised.

2. Pursuant to a resolution by the Audit Committee dated July 17, 2023 and to approval by the General Meeting of Bank shareholders, the resolution to approve the amended letter of commitment, with regard to its applicability to controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than three years after aproval by the General Meeting of Bank shareholders (i.e. after September 5, 2023), as required by law. The resolution to approve the amended letter of commitment, with regard to its applicability to all other eligible parties other than controlling shareholders of the Bank and relatives thereof, would be brought for re-approval no later than 9 years after aproval by the General Meeting of Bank shareholders (i.e. after September 5, 2023).

For more information see Immediate Report dated July 27, 2023 (reference 2023-01-086163), Immediate Report dated September 5, 2023 (reference 2023-01-103332) and Immediate Report dated September 5, 2023 (reference 2023-01-103356).

The annual General Meeting held on December 20, 2023 resolved as follows:

A. Re-appoint Brightman Almagor Zohar & Co. as the Bank's Independent Auditor through the next annual General Meeting of Bank shareholders.

B. To re-appoint Mr. Moshe Vidman as member of the Bank's Board of Directors through June 15, 2024.

C. To approve the revised Bank officer remuneration policy, as enclosed with the notification convening the annual meeting (issued on November 9, 2023, reference no, 2023-01-123183), to be effective for three years as from January 1, 2024; and to approve, pursuant to Section 2(a) of the Financial Institution Officer Remuneration Law (Special approval and non tax deductibility of excessive remuneration), 2016, whereby pursuant to provisions of the remuneration policy, based on the terms and limits set forth therein, remuneration of Bank officers, other than the Bank President & CEO and other than Board members, may exceed the amount set forth in Section 2(a) of the Executive Remuneration Law, subject to approval by the Remuneration Committee and by the Board of Directors, without further approval by the General Meeting of shareholders.For more information see Immediate Report dated December 20, 2023 (reference no. 2023-01-138630).

An extraordinary general meeting of shareholders, held on February 20, 2024, resolved to appoint Ms. Estheri Giloz-Ran as External Board member of the Bank, for a further term of three (3) years (second term in office), as from February 27, 2024.

Regulation 29a(4) – Corporate resolutions

See Note 26.C, sections 5-9 to the financial statements.

Ramat Gan, March 11, 2024

Names of signatories:

Menahem Aviv	**Chanan Kikuzashvili**
Vice-president,	Bank Secretary
Chief Accountant	

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS INDEPENDENCE

		True	False
1.	Throughout the reported year, the Board included two or more external Board members. For this question, you may answer "True" if the duration in which there were not two external Board members does not exceed 90 days, as set forth in Section 363A.(b)(10) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when the Board did not include two or more external Board members in the reported year (including any term in office retroactively approved, separately for different external Board members): Board member A: **<u>Ms. Hannah Fayer</u>** Board member B: **<u>Mr. Gilad Rabinobich</u>** Board member C: **<u>Mr. Joseph Fellus</u>** Board member D: **<u>Ms. Estheri Giloz-Ran</u>** The number of external Board members currently in office as of the publication date of this questionnaire: **<u>4</u>**.	✓	
2.	The rate of [2]independent Board members[3] currently in office as of the publication date of this questionnaire: **<u>4/10</u>**. The rate of independent Board members set in the corporate [4]Bylaws:[5] **<u>Pursuant to the Supervisor of Banks' Proper Conduct of Banking Business Directive regarding "Board of Directors", at least one third of Board members of a banking corporation would be external Board members, as this term is defined in said Directive ("External Board Members as Directed by the Supervisor"). As of the publication date of this questionnaire, the Bank has four (4) external Board members, as this term is defined in the Companies Law, 1999, who also qualify as External Board Members as Directed by the Supervisor. All external Board members, as noted, are also independent Board members.</u>** ☐ N/A (no provisions included in the bylaws).	_____	_____

[1] Published in conjunction with proposed legislation for improvement of reports on March 16, 2014.

[2] In this questionnaire, "**rate**" means number out of the total. For example: 3/8.
[3] Including "external Board members" as defined in the Companies Law.
[4] For this matter, "Bylaws" including pursuant to specific statutory provisions applicable to the Corporation (for example, for a banking corporation – directives of the Supervisor of Banks).
[5] A bond company is exempt from answering this item.

3.	In the reported year, a review with the external Board members (and independent Board members) found that in the reported year, they were in compliance with provisions of Section 240(b) and (f) of the Companies Law with regard to no affiliation of external (and independent) Board members in office, and also meet the conditions for serving as external (or independent) Board member. **Each of the external Board members (who is also an independent Board member) has certified to the Bank that they were in compliance with provisions of Section 240(b) and (f) of the Companies Law with regard to no affiliation and also meet the conditions for serving as external (or independent) Board member, as noted above.**	✓	
4.	All Board members in office during the reported year do not report to the CEO[6], directly or indirectly (other than a Board member who is an employee representative, if any). If you answered False (i.e. the Board member reports to the CEO) – indicate the rate of Board members who failed to meet this criterion: ___.	✓	
5.	All Board members who announced they had a personal interest in approval of a transaction on the agenda of the meeting, did not attend discussion and did not participate in voting (other than discussion and/or voting under circumstances as set forth in Section 278(b) of the Companies Law): If you answered False – Was this for the purpose of presenting a certain matter thereby, in conformity with provisions of Section 278(a): ☐ YES ☐ NO (check as appropriate). Indicate the rate of meetings at which such Board members attended and/or participated in voting, other than under circumstances as set forth in sub-section a: ___.	✓	
6.	The controlling shareholder (including relative thereof and/or anyone on behalf thereof), who is not a Board member or senior officer of the corporation, did not attend meetings of the Board of Directors held during the reported year. If you answered False (i.e. the controlling shareholder and/or relative thereof and/or anyone on behalf thereof, who is not a Board member or senior officer of the corporation, did attend such meetings of the Board of Directors) – indicate the following information regarding attendance of any other person at such meetings of the Board of Directors: Identity: ____. Position with the corporation (if any): _____. Affiliation with the controlling shareholder (if the person attending is other than the controlling shareholder): _____. Was this for the purpose of presenting a certain matter thereby: ☐ YES ☐ NO (check as appropriate). [7]Their attendance rate at meetings of the Board of Directors held during the reported year for presenting a certain matter thereby: _____, other attendance: _____. ☐Not applicable (the corporation does not have a controlling shareholder).	✓	

6 With regard to this question – merely holding the office of Board member with a corporation owned and controlled by the Corporation shall not constitute "reporting"; conversely, holding the office of Board member with a corporation that is an officer (other than Board member) and/or employee of a corporation owned and controlled by the Corporation shall constitute "reporting" for the purpose of this question.

7 Separating the controlling shareholder, any relative thereof and/or anyone on behalf thereof.

BOARD MEMBER QUALIFICATIONS AND SKILLS				
			True	**False**
7.	The corporate Bylaws include no provision limiting the option for immediate termination of term in office of all Board members of the corporation, other than external Board members (for this matter – a resolution by simple majority is not considered a limitation).[8] If you answered False (i.e. there is such limitation), indicate –		✓	
	A.	Term in office for Board member, as set forth in the Bylaws: _____.	_____	_____
	B.	Majority required in the Bylaws for terminating a Board member's term in office: _____.	_____	_____
	C.	Legal quorum specified in the Bylaws for a General Meeting, for terminating a Board member's term in office: _____.	_____	_____
	D.	Majority required to amend these provisions of the Bylaws: _____.	_____	_____
8.	The corporation has put in place a training program for new Board members with regard to the corporation's business and laws applicable to the corporation and to Board members, and has put in place a continuing program for training incumbent Board members suitable, *inter alia*, to the Board member's role within the corporation. If you answered True – indicate if this program was active in the reported year: ☒ YES ☐ ~~NO~~ (check as appropriate)		✓	

[8] A bond company is exempt from answering this item.

9.		A.	The corporation has specified the minimum number of Board members to have accounting and financial expertise. If you answered True – indicate the minimum number specified: **<u>At least three (3) Board members (pursuant to a resolution by the Board of Directors) and at least one fifth (1/5) of all Board members (in conformity with Proper Conduct of Banking Business Directive with regard to the Board of Directors, issued by the Supervisor of Banks).</u>**	✓	
		B.	The number of Board members in office during the reported year – Having accounting and financial expertise:[9] **<u>8</u>** Having professional qualifications:[10] **<u>10</u>** In case of changes to said number of Board members in the reported year, provide the lowest number (except for the 60-day period after such change) of Board members of each category who served in the reported year. **<u>As of the publication date of this questionnaire, all Board members at the Bank are classified as "Expert Board members" for the purpose of Companies Regulations (Rules for remuneration and expense reimbursement for external Board members), 2000.</u>**	_____	_____
10.		A.	Throughout the reported year, the Board of Directors consisted of Board members of both genders. If you answered False – indicate the duration (in days) when this was false: _____. For this question, you may answer "True" if the duration in which there were no Board members of both genders does not exceed 60 days; However, for any answer (True or False), indicate the duration (in days) when the Board did not include Board members of both genders: _____.	✓	
		B.	The number of Board members of each gender currently in office as of the publication date of this questionnaire: Male: **<u>8</u>**, Female: **<u>2</u>**.	_____	_____

[9] After assessment by the Board of Directors, in conformity with Corporate Regulations (Requirements and tests for Board members with accounting and financial skills and for Board members with professional skills), 2005.

[10] See footnote 9.

BOARD MEETINGS (AND GENERAL MEETING OF SHAREHOLDERS)

11. A. Number of Board meetings held in each quarter of the reported year:

First quarter (of 2023): 4.
Second quarter (of 2023): 5.
Third quarter (of 2023): 3.
Fourth quarter (of 2023): 7.

B. Next to each name of a Board member who served the corporation during the reported year, indicate their attendance rate[11] at Board meetings (in this sub-section: including meetings of Board committees they are member of, as noted below) held during the reported year (with reference to their term in office):

Board member name	Attendance rate at **Board** meetings	Attendance rate at meetings of the **Audit Committee**[12]	Attendance rate at meetings of the **Financial Statements Review Committee**[13]	Attendance rate at meetings of the **Remuneration Committee**[14]	Their attendance rate at meetings of **other Board committees of which they are a member** (please indicate the committee name)[15]				
		The Audit Committee also serves as the Financial Statements Review Committee.[16]			**Credit Committee**	**Risk Management Committee**	**IT and Technology Innovation Committee**	**Ad-hoc Union Bank Integration Committee**[17]	**Ad-hoc committee, established on November 27, 2023, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**[18]
Moshe Vidman[19]	100%	–	–	–	100%	100%	100%	100%	100%
Ron Gazit	95%	–	–	–	100%	–	100%	–	–

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11 See footnote 2.
12 For Board member who is a member of this committee.
13 For Board member who is a member of this committee.
14 For Board member who is a member of this committee.
15 For a Board member who is a committee member.
16 Details of attendance rate at meetings of the Audit Committee (as set forth in the third column of this table) refer to meetings of the Audit Committee, other than meetings involving the financial statements. Also, details of attendance rate at meetings of the Audit Committee (as set forth in the fourth column of this table) refer to meetings of the Audit Committee involving the financial statements.
17 Ad-hoc committee for integration of Union Bank convened once in 2023 and concluded its work after the merger of Union Bank Le-Israel Ltd. with and into the Bank.
18 The Committee was convened once.
19 Moshe Vidman (who serves as Chairman of the Board of Directors) is not member of the Audit Committee but attends as observer the meetings of the Audit Committee in conjunction with the approval process of financial statements. This is in conformity with the position of the Supervisor of Banks, as provided in "Q&A regarding implementation of Proper Conduct of Banking Business Directive 301 with regard to the Board of Directors".

			Board member name	**Board of Directors**	**Audit Committee**	**Financial Statements Review Committee**	**Remuneration Committee**	**Credit Committee**	**Risk Management Committee**	**IT and Technology Innovation Committee**	**Ad-hoc Union Bank Integration Committee**	**Ad-hoc committee, established on November 27, 2023, regarding review of composition of the Board of Directors, prior to appointment of Board members to the Bank**	
			Jonathan Kaplan	100%	–	–	–	100%	100%	100%	100%	100%	
			Avraham Zeldman	100%	90%	100%	–	–	90%	–	100%	–	
			Hannah Fayer	100%	100%	100%	100%	100%	–	–	–	–	
			Gilad Rabinobich	100%	100%	100%	100%	–	100%	100%	100%	–	
			Ilan Kremer	95%	–	–	–	–	100%	–	–	–	
			Eli Alroy	90%	–	–	–	82%	–	100%	100%	–	
			Joseph Fellus	100%	100%	100%	100%	100%	100%	–	100%	100%	
			Estheri Giloz-Ran	100%	100%	100%	100%	–	–	100%	–	–	

		True	**False**
12.	In the reported year, the Board of Directors held one or more discussions regarding management of corporate business by the CEO and officers reporting there to, in their absence, and they were given an opportunity to express their opinion.	✓	___

SEPARATION OF ROLES OF THE CEO AND CHAIRMAN OF THE BOARD

				True	**False**
13.	Throughout the reported year, the corporation was served by a Chairman of the Board of Directors. For this question, you may answer "True" if the duration in which there was no Chairman of the Board of Directors at the corporation does not exceed 60 days, as set forth in Section 363a.(2) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when there was no Chairman of the Board of Directors at the corporation: _____.			✓	
14.	Throughout the reported year, the corporation was served by a CEO. For this question, you may answer "True" if the duration in which there was no CEO at the corporation does not exceed 90 days, as set forth in Section 363a.(6) of the Companies Law; However, for any answer (True or False), indicate the duration (in days) when there was no CEO at the corporation: __.			✓	
15.	For a corporation where the Chairman of the Board of Directors also serves as CEO and/or exercises their authority, this dual office was approved in conformity with provisions of Section 121(c) of the Companies Law.[20] ☑ Not applicable (as there is no such dual office at the Corporation).			_____	_____
16.		The CEO is not related to the Chairman of the Board of Directors. If you answered False (i.e. the CEO is related to the Chairman of the Board of Directors) –		✓	
		A.	Indicate the family relationship between them: _____.	_____	_____
		B.	The office was approved pursuant to Section 121(c) of the Companies Law.[21] ☐ YES ☐ NO *(Check as appropriate)*	_____	_____
17.		A controlling shareholder or relative thereof does not serve as CEO or senior officer of the corporation, other than as Board member. ☐ Not applicable (the Corporation does not have a controlling shareholder).		✓	

[20] For a bond company – approval pursuant to Section 121(d) of the Companies Law.
[21] For a bond company – approval pursuant to Section 121(d) of the Companies Law.

AUDIT COMMITTEE				True	False
18.		During the reported year, the Audit Committee did not include –		_____	_____
		A.	The controlling shareholder or relative thereof. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	
		B.	Chairman of the Board of Directors.	✓	
		C.	A Board member employed by the corporation, or by the controlling shareholder of the corporation, or by a corporation controlled thereby.	✓	
		D.	A Board member who regularly provides services to the corporation, or to the controlling shareholder of the corporation, or to a corporation controlled thereby.	✓	
		E.	A Board member whose livelihood primarily depends on the controlling shareholder. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	
19.	Anyone not permitted to be member of the Audit Committee, including a controlling shareholder or relative thereof, did not attend, during the reported year, meetings of the Audit Committee other then pursuant to provisions of Section 115(e) of the Companies Law.			✓	
20.	The legal quorum for discussion and passing resolutions at all Audit Committee meetings held during the reported period was a majority of Committee members, with a majority of those present being independent Board members and at least one of them was an external Board member. If you answered False – indicate the rate of meetings where this requirement was not fulfilled: _____.			✓	
21.	During the reported year, the Audit Committee held one or more meetings attended by the Internal Auditor and by the Independent Auditor, and not attended by officers of the corporation other then Committee members, regarding deficiencies in business management of the corporation.			✓	
22.	At all meetings of the Audit Committee attended by anyone not permitted to be member of this Committee, this was approved by the Committee Chair and/or requested by the Committee (with regard to Legal Counsel and Corporate Secretary who is not a controlling shareholder or relative thereof).			✓	
23.	During the reported period, arrangements were in place as determined by the Audit Committee, regarding handling of complaints by employees of the corporation about deficiencies in business management of the corporation and regarding protection to be extended to employees who make such complaints.			✓	
24.	The Audit Committee (and/or the Financial Statements Review Committee) was satisfied that the scope of work of the Independent Auditor and their fee with regard to the financial statements in the reported year, were appropriate for carrying out proper audit and review work.			✓	

ROLES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER: "THE COMMITTEE") IN ITS WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS				
			True	**False**
25.	A.	Please indicate the duration (in days) determined by the Board of Directors to be a reasonable time for providing recommendations of the committee prior to a Board meeting convened to approve the financial statements: **3 days – however, by decision of the Board of Directors, the Chairman of the Board of Directors may instruct, at their discretion, that the recommendations be provided to Board members sooner or later than the foregoing, provided this is reasonable under the circumstances.**	_____	_____
	B.	Actual number of days between providing the recommendations to the Board of Directors, and the date of Board discussion to approve the financial statements: Financial statements for the first quarter (of 2023): 5. Financial statements for the second quarter (of 2023): 5. Financial statements for the third quarter (of 2023): 4. Annual report (for 2023): 4.	_____	_____
	C.	Number of days between providing the draft financial statements to Board members, and the date of Board discussion to approve the financial statements: Financial statements for the first quarter (of 2023): 8. Financial statements for the second quarter (of 2023): 11. Financial statements for the third quarter (of 2023): 7. Annual report (for 2023): 12.	_____	_____
26.	The Corporation's Independent Auditor attended all meetings of the Committee and of the Board of Directors convened to discuss the Corporation's financial statements for periods within the reported period. If you answered False – indicate their attendance rate: _____.		✓	
27.	During the reported year and through publication of the annual report, the Committee fulfilled all of the following conditions:		_____	_____
	A.	The number of members was three or more (upon discussion by the Committee and approval of the aforesaid reports).	✓	
	B.	All conditions set forth in Section 115(b) and (c) of the Companies Law (regarding office of Audit Committee members) were fulfilled.	✓	

	C.	The Committee Chair is an external Board member.	✓	
	D.	All Committee members were Board members, and a majority of Committee members were independent Board members.	✓	
	E.	All Committee members are able to read and understand financial statements, and one or more of the independent Board members has accounting and financial expertise.	✓	
	F.	Committee members have provided certification prior to their appointment.	✓	
	G.	Legal quorum for discussion and voting on resolutions by the Committee was a majority of Committee members, provided that a majority of those in attendance are independent Board members, including one or more external Board members.	✓	
	If you answered False to any of the sub-sections of this item, indicate for which report (periodic / quarterly) the condition was not fulfilled, and which condition was not fulfilled: _____.		_____	_____

REMUNERATION COMMITTEE

				True	False
28.		During the reported period, the Committee included at least three members and external Board members constituted a majority of Committee members (on the date of discussion by the Committee). ☐Not applicable. (No discussions took place).		✓	
29.		Terms of office and employment of all Remuneration Committee members in the reported year were in conformity with Companies Regulations (Rules for remuneration and expense reimbursement for external Board members), 2000.		✓	
30.		During the reported year, the Remuneration Committee did not include –		_____	_____
		A.	The controlling shareholder or relative thereof. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	
		B.	Chairman of the Board of Directors.	✓	
		C.	A Board member employed by the corporation, or by the controlling shareholder of the corporation, or by a corporation controlled thereby.	✓	
		D.	A Board member who regularly provides services to the corporation, or to the controlling shareholder of the corporation, or to a corporation controlled thereby.	✓	
		E.	A Board member whose livelihood primarily depends on the controlling shareholder. ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	
31.		During the reported period, a controlling shareholder, or relative thereof, did not attend meetings of the Remuneration Committee, unless the Committee Chair has ruled that they are required to attend for presentation of any particular matter.		✓	
32.	The Remuneration Committee and the Board of Directors did not exercise their authority pursuant to Sections 267a(c), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or remuneration policy, despite the objection of the General Meeting of shareholders. If you answered False, please indicate – The type of transaction thus approved: _____ The number of times they exercised their authority in the reported year: _____			✓	

INTERNAL AUDITOR

		True	False
33.	The Chairman of the Board of Directors or the CEO of the corporation is the organizational supervisor of the corporation's Internal Auditor.	✓	
34.	The Chairman of the Board of Directors or the Audit Committee have approved the work plan in the reported year. Also list audit topics addressed by the Internal Auditor in the reported year: 2023 (check as appropriate). **Internal Audit operates based on a risk-based audit plan. The work plan for 2023 and the multi-annual work plan were discussed by the Audit Committee and approved by the Board of Directors plenum. In 2023, in conformity with the work plan, Internal Audit addressed, inter alia, topics related to credit risk, financial risk, compliance risk, operating risk, AML etc. For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2023 annual report.**	✓	
35.	Scope of employment of the corporation's Internal Auditor in the reported year (in hours):[22] **Full-time position** **For more information see disclosure with regard to the Internal Auditor of the Corporation in chapter "Corporate governance and audit" in the Bank's 2023 annual report.**	_____	_____
	In the reported year, the Audit Committee or the Board of Directors discussed the Internal Auditor's findings.	✓	
36.	The Internal Auditor is not an interested party in the corporation, relative thereof, Independent Auditor or anyone on behalf thereof, and has no substantial business relations with the corporation, the controlling shareholder thereof, any relative thereof or corporations controlled thereby.	✓	

[22] Including work with regard to investees and audit work outside of Israel, as the case may be.

TRANSACTIONS WITH INTERESTED PARTIES			
		True	**False**
37.	The controlling shareholder or relative thereof (including company controlled thereby) is not employed by nor provides management services to the corporation. If you answered False (i.e. the controlling shareholder or relative thereof is employed by nor provides management services to the corporation), indicate – – The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled thereby and/or through management companies): _____. – Were the employment agreements and/or management services agreements approved by the organs as set forth by law: ☐ YES ☐ NO (Check as appropriate) ☐ Not applicable (the corporation does not have a controlling shareholder).	✓	
38.	To the best of the corporation's knowledge, the controlling shareholder has no other business in the corporation's operating segment (in one or more segments). If you answered False – indicate whether an agreement to delineate operations has been reached by the corporation and the controlling shareholder thereof: ☐ YES ☐ NO (Check as appropriate) ☐ Not applicable (the Corporation does not have a controlling shareholder).	✓	

Chairman of the Board of Directors: Mr. Moshe Vidman

Chairman of the Audit Committee (also serves as the Financial Statement Review Committee): Mr. Joseph Fellus

מזרחי טפחות
MIZRAHI TEFAHOT

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